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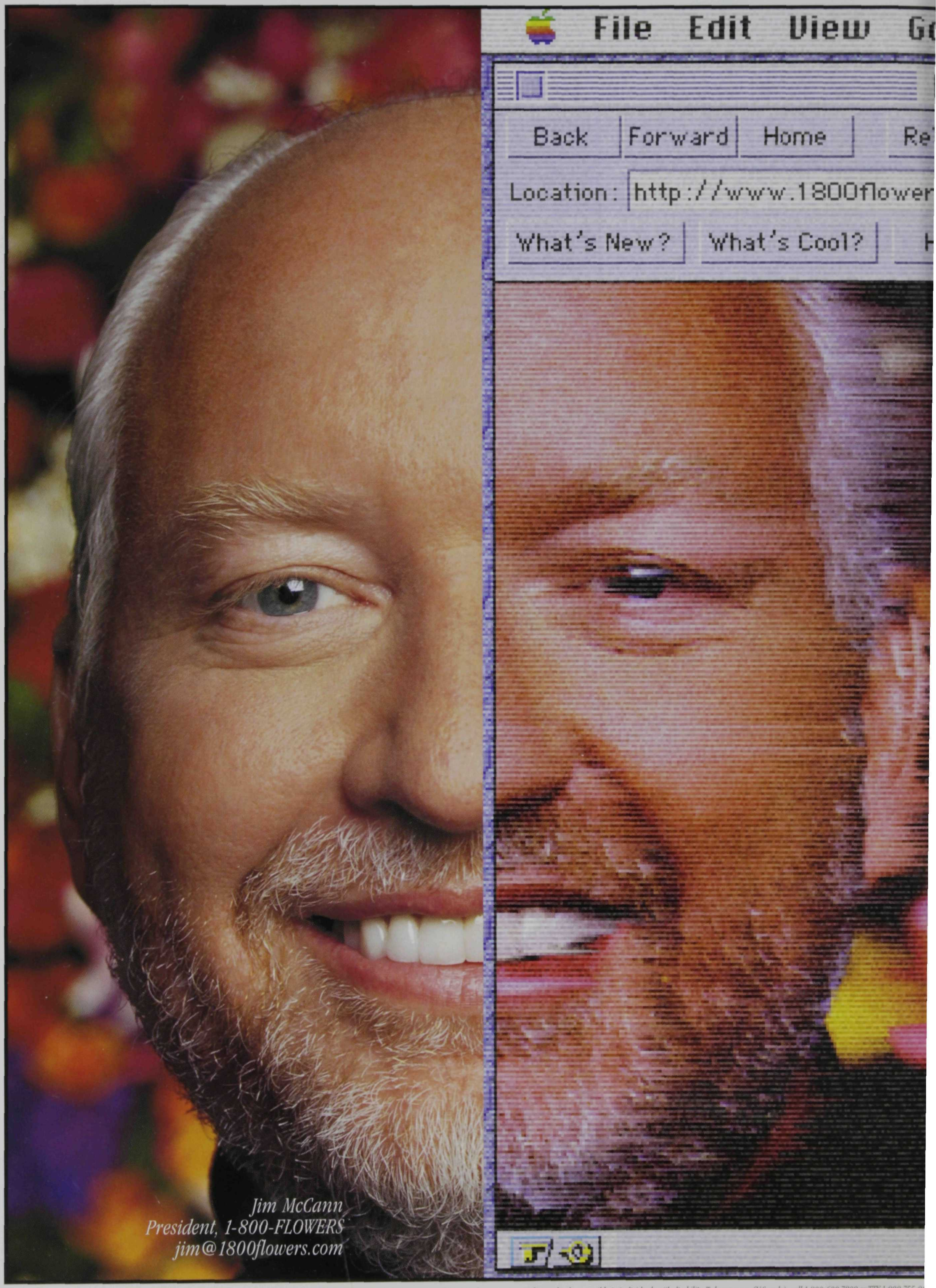
How To Choose Your Company's Software

States Persuading Firms Not To Move

REINVENTING Retailing

10 strategies small retailers are using to thrive despite intense pressure from big competitors

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Retailers' strategies *for competing with superstores include offering customers innovative, entertaining experiences. At Michael and Jennifer Rubin's California shops, customers paint the ceramics of their choice and have them kiln-fired. Cover Story, Page 18.*



PHOTO: ©SHAWN SPENCE

Dog-food maker *Richard Thompson, with visitors Cynthia Hancock and Dufus, on a promotion tour. Marketing, Page 48.*

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PHOTO: ©RICHARD HOWARD

Long-term needs *of his optical-fiber firm helped Michael Kerr choose software. Small Business Computing, Page 38.*

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Editor's Note

Why You Should Apply



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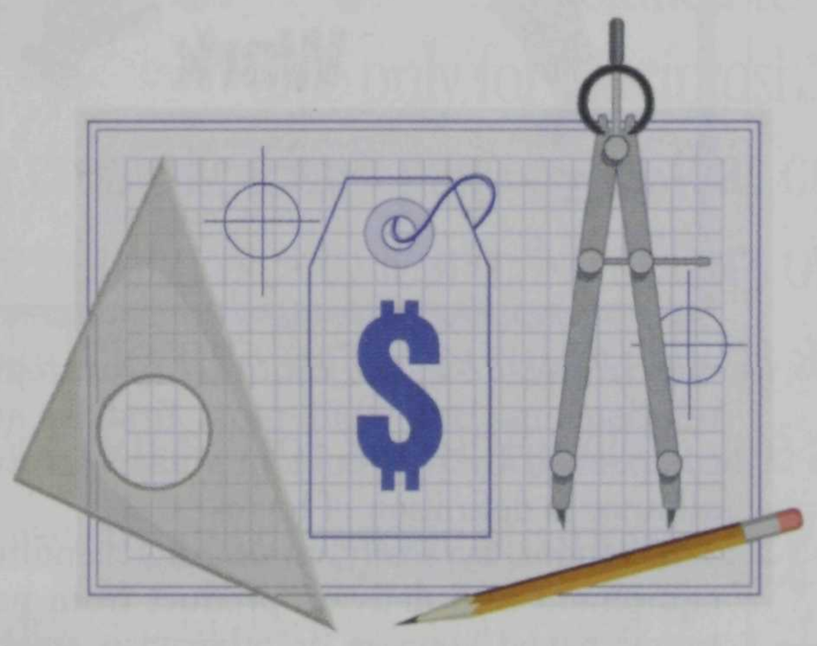
It's not unusual to feel that every ounce of energy you expend on your business must produce some tangible positive result. But the best things that could happen are often intangible—your employees become more motivated, for instance, or your business overcomes a major obstacle.

If your company has ever experienced the latter, you probably gained valuable insight—another intangible benefit—as a result. At *Nation's Business*, we're eager to tap that knowledge to help and encourage other businesses that might face formidable obstacles.

That's a major reason why we sponsor, with Massachusetts Mutual Life Insurance Co. (widely known as MassMutual — the Blue Chip Company) and the U.S. Chamber of Commerce, the annual program known as the Blue Chip Enterprise Initiative. It was begun six years ago to honor small firms that have overcome adversity and emerged stronger as a result—but also to share those experiences with others.

Steven C. Berg (in the photo above), president and CEO of DeBourgh Manufacturing Co., in La Junta, Colo., says the recognition the firm received as a 1992 national Blue Chip Enterprise "has given our entire company more confidence."

In "A Blue-Chip Shot Is Well Worth It," starting on Page 35, we relate some of the benefits that other Blue Chip honorees have gained from participation in the program. To apply for the 1997 honor, see the special insert immediately following the story.



This month's cover story, "The Little Guys Strike Back," is full of good reporting by Contributing Editor Dale Buss on how small retailers are reinventing their approaches to doing business. The article, beginning on Page 18, details their tactics for survival. Even if you're not in retailing, this story could provide helpful hints for you in your business endeavors.

Mary Y. McElveen
Editor

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Letters

Definition Of Terms Is Key In Alliances

In reading your May cover story, "Striking The Right Match," it was refreshing to see these ideas in print outside a publication devoted to purchasing.

The business practices examined in the article have been a mainstay of many purchasing professionals for years, as have many other changes promulgated by enterprising purchasing people seeking improvement either in costs or to meet the bottom-line demands of their companies.

The article discussed the correct way of approaching business relationships in addition to the overuse of certain terminologies. However, one such term referred to in the article, but not identified as overused or otherwise out of place, was "vendor."

Aligning oneself, and one's company, with another company in order to work together to mutually enhance capabilities and profits is a goal that must be shared between the two parties, and the "right



match" must exist to continue a strategic relationship. But what must first be accomplished by the "customer/user" in the alliance is definition of terms.

A vendor, typically, maintains vending equipment and delivers product from national brand sources or otherwise stocks shelves and the like. A "supplier," on the other hand, is a source that brings to the business relationship something more: "value added."

In the value-added arena may be engineering, testing, or any other service that goes beyond the widget for which the supplier has been contracted. Until the corporate mind-set of the company originating the alliance sufficiently recognizes the differences between suppliers and vendors, the strategic value of the relationship is in jeopardy.

Your article points out many of the new trends being practiced. The recognition of the hard work of the people outlined in the article will be a source of inspiration to many who are looking for innovative approaches to bring to their companies.

Paul S. Stenger
Certified Purchasing Manager
Exline Inc.
Salina, Kan.

It's A Jungle Out There For Employers

In regard to "Heading Off The IRS On Independent Contractors" [March], it should be pointed out that the Internal Revenue Service is not the only potential adversary waiting to pounce on employers.

If an "independent contractor" is injured on the job, the employer may be held liable for workers' compensation benefits if a hearing officer decides the worker was actually an employee. Then there may be a question with the insurance carrier about covering a person for whom the employer has paid no insurance premiums.

Increasingly, companies are finding that an "independent contractor" sales representative may sue for wrongful discharge when the company severs the relationship.

To avoid such hassles, make sure the person has a business license, insurance, and the freedom of function of a true independent contractor. Then get an employment-law specialist to put it in writing, and have it signed by both parties and updated annually.

James F. Carey
Certified Management Consultant
Carey Associates, Inc.
Burlingame, Calif.

A Quality Labor Pool Waiting To Be Tapped

I'd like to commend you on your April cover story, "Help Wanted Desperately." What particularly caught my eye was the fact that it pointed out that people with disabilities "are a growing source of new workers."

This segment of the U.S. population is perhaps the largest untapped labor pool, one that many businesses are discovering not only provides skilled work but also has a significant impact on profitability.

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To find out how easily Apple can put you on the Internet and for the name of the Apple Premium Server Reseller near you, call 1-800-234-0455 for information via fax, or visit us at www.solutions.apple.com/bizinfo

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Through the President's Committee's Job Accommodation Network (JAN), we have found that businesses are seeing bottom-line benefits that average nearly $30 for every dollar expended on making a workplace accommodation for an employee with a disability.

It's ironic that many small businesses hesitate to tap into this market when they are scrambling to find and keep entry-level workers. I encourage these businesses to call JAN toll-free at 1-800-ADA-WORK (1-800-232-9675) for information regarding accommodation and recruitment.

People with disabilities do have ability for hire. Small businesses can reap the benefits.

Tony Coelho, Chairman
President's Committee on Employment of People With Disabilities
Washington, D.C.



A Notebook Computer With An On-Board Printer

You did a good job on "The Lowdown On High Tech" [April], but how could you miss the Canon NoteJet, with its on-board printer? Are there only a few of us who need to do everything on the road?

I admire many features of the IBM ThinkPad, for example, but the Canon offering appears to be the only notebook PC out with the printer—as well as ports for other monitors and printers. Why everybody doesn't clamor for this feature is a complete mystery to me.

Peter Ross
President
Brown & Ross of New Jersey, Inc.
Jersey City, N.J.

[Editor's Note: Canon's NoteJet is indeed the only notebook computer with a built-in printer. We reviewed this product in the December 1994 issue and plan to look at the current model, the NoteJet IIIcx, in the September issue.]

Clarifying A Point On Life-Insurance Trusts

"Putting Trusts In Your Estate Planning" [Small Business Financial Adviser, June] gave a good overview of common estate-planning tools. However, the section on "The Irrevocable Life-Insurance Trust" contained a flaw.

It is true that to avoid taxation, the insured must live for three years after an existing policy is *transferred* into the trust. However, if the trust purchases a *new* policy, there is no transfer, and hence the insurance is not "swept back into the person's estate" even if he should die within three years.

Matt Kokkonen
Chartered Life Underwriter and Chartered Financial Consultant
San Luis Obispo, Calif.

[Editor's Note: The article should have made a distinction between transferring an existing policy and buying a new policy. For a further look at irrevocable life-insurance trusts, see Page 55 in this issue.]

A Longer Perspective On Violent Crime

"The Brave New World Of Business Security" [May] stated that if statistics were their guide, Americans would feel more secure these days than they have in years.

You cite the latest FBI statistics, which show a 1 percent decrease in serious crime for the first six months of 1995 compared with the same period in 1994, following a 2 percent decline for all of 1994 compared with 1993.

Let's look at this from a longer perspective. In 1960 in New Haven, Conn., there were six murders, four rapes, and 16 robberies. In 1990, the population of that city had declined by 14 percent and experienced 31 murders, 168 rapes, and 1,784 robberies—an increase of more than 10,000 percent for the latter statistic.

This example is not atypical. But the reporting of very recent and minor declines in violent crime is all too typical.

Craig Kobylik
Portage, Mich.

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ENTREPRENEUR'S NOTEBOOK

Coming Through Loud And Clear

By Tim Newcome

I like to joke that I learned my most important business skills doing chores for my mother. It's a slight exaggeration, but I did learn one of the most important philosophies of my company at a young age: Whatever you do, do it right the first time.

Like the times you did a halfhearted job drying the dishes and Mom made you do them over, a business project that's not quite done right can require a great deal of repeat attention. And the punishment—lost time and money—is far more severe than what Mom doled out.

Paying attention to details isn't the easiest way to do business, but for me it has been the only way. While I was in college, a friend and I started designing and building sound systems for touring rock groups like the J. Geils Band and the Doobie Brothers. There was no room for error; any glitch would be heard by an arena full of fans.

In 1986, I bought out my partner and started Newcome Electronic Systems. The Columbus, Ohio, firm has grown to a 40-employee, $8 million business specializing in everything from data- and voice-communication systems to installation of computer networks, videoconferencing equipment, and home or boardroom theaters.

Getting the job done right the first time sounds so simple, but personal experience as a consumer and an entrepreneur probably has shown you that it can be tough to deliver. Here are the keys:

Communicate. Whether talking with customers or with staff members who will do the job, everyone involved must have a clear understanding of the product to be delivered and the service expected.

When designing a system, we lay out every available option to the client. By helping customers make informed decisions, we eliminate common complaints like "You never told me I could get this" or "I wanted it to do this or that."

Internally, every job is overseen by a project manager who is involved in every aspect of the job, from the sales and design process to a review with the customer of how the installed system operates.

Sweat the small stuff. Customers appreciate attention to the finer details and often make purchasing decisions based on who takes care of the little things, such as the condition of the job site when the work is done.

We have found that customers appreciate our promise of immaculate installation, from the neatness of our wiring to the fact that our technicians wear slippers while working so dirt won't get on the floor. Many customers have chosen us over our competitors because of that promise.

Remember that your image is at stake. There's a fine line between right and "almost right." Cutting corners may seem like an easy way to increase profits on a job, but doing so can cause problems later for both the company and the client.

By meeting or exceeding customer expectations the first time, you not only increase the likelihood that you'll be given additional work and referrals but you also reduce the potential of repeated and costly service calls on your tab.

Do whatever it takes. You can't look past the business at hand to see what is coming next. Our technicians are instructed that they must never leave a project until the installation is working properly. If that takes longer than expected, we'll work overtime until it's done—even if it means calling the next customer to explain why the start of his job will have to be delayed. When this does happen, we have found our customers to be very accepting because they know they will receive the same consideration.

If you can't do it right, don't do it at all. Analyze the job before you take it. If a client wants a Cadillac job at Yugo prices, for example, his cost structure could force you to cut corners. If he won't compromise, pass up the job. Similarly, if you can't keep a promise—any promise—don't make it. NB



PHOTO: ©JIM CALLAWAY

Being tuned in *to customer expectations is paramount for Tim Newcome and his electronic-systems company.*

Tim Newcome is chairman of Newcome Electronic Systems. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

Doing the job right isn't always an easy motto to live up to. It takes diligence and attention to detail.

Dateline: Washington

Business news in brief from the nation's capital.

By Albert G. Holzinger

LEGISLATION

A Tax-Relief Quilt That Could Unravel

Most small businesses would qualify for some of the $7.05 billion in tax relief approved by the House on May 22. But don't spend your prospective tax savings yet.

Even though the wide-ranging package of provisions passed the House by an overwhelming 414-10 vote, Senate approval is uncertain, largely because of election-year political considerations.

If enacted, the House bill would, among other things, increase the maximum amount of equipment purchases that small businesses could deduct from present-year taxes. That amount would grow incrementally over eight years from the current $17,500 to $25,000. As under current law, purchase amounts above the maximum would have to be deducted gradually as the equipment depreciated in value.

The House measure also would make more than 25 changes in current pension laws, each designed to make it easier for small companies to create and maintain employee retirement programs. The key change would allow firms with 100 or fewer employees to create a new form of 401(k) plan that would be exempt from the current extensive compliance rules.

The legislation also would extend, until Dec. 31, 1998, the ability of employees to exclude from their taxable incomes the value of employer-provided educational assistance up to $5,250 per year.

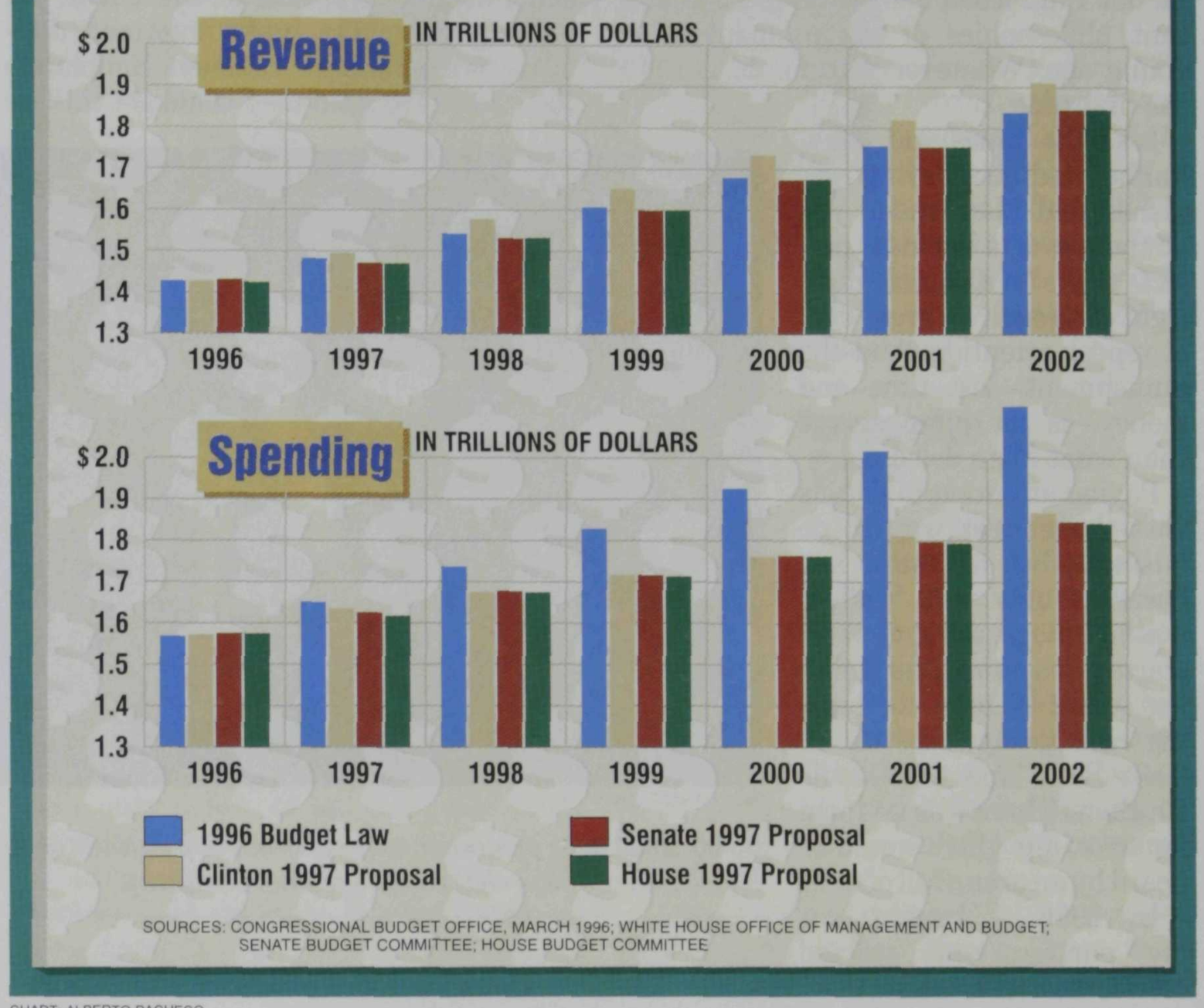
The provision would be retroactive to Dec. 31, 1994, when the long-standing provision expired. Similarly, the bill would extend until June 30, 1997, a tax credit of up to 35 percent of wages paid to new hires who are economically or otherwise disadvantaged. That credit also expired at the end of 1994.

Unfortunately for small business, the House chose to append to this legislation a separate, politically supercharged bill that would increase the minimum wage from the current $4.25 an hour to $4.75 this July 1 and to $5.15 a year later. Of note to business, the wage-increase bill also would repeal the provision of the 1947 Portal-to-Portal Act recently cited in federal judicial and administrative rulings that employers must pay employees for time spent commuting in company-provided cars.

Adding to the complexity of the political situation, all these measures have become implicitly tied to a House-passed bill that would repeal until the end of this year 4.3 cents of the federal motor-fuel tax of 18.4 cents a gallon. "We've got this thing all balled in a knot, and we've got to take it apart one thread at a time," says Senate Majority Whip Trent Lott, R-Miss. ■

THE ECONOMY

Federal Budgeting: Four Forecasts



SOURCES: CONGRESSIONAL BUDGET OFFICE, MARCH 1996; WHITE HOUSE OFFICE OF MANAGEMENT AND BUDGET; SENATE BUDGET COMMITTEE; HOUSE BUDGET COMMITTEE

CHART: ALBERTO PACHECO

FOR THE RECORD

■ The U.S. Postal Service has begun teaching business mailers how to prepare their mail to qualify for the lowest rates available under the recently revamped classification system, effective July 1. (For details about reclassification, see "Postal Changes Raise The Stakes," in the June issue.)

The Postal Service education effort—which it calls Max It!—includes a detailed guide and training sessions nationwide. To receive the publication and find out the date and location of the session nearest you, call 1-800-THE-USPS (1-800-843-8777), Ext. 2012.

Also, there's new, high-tech help available for business owners looking to update their customer mailing databases to take advantage of the postal reclassification, which assigns the lowest rates to mailings that can be processed automatically. A $49 software program called ZIPFix, from Pro CD Inc., in Danvers, Mass., corrects ZIP code errors and misspelled street names, cities, and state abbreviations in mailing databases. ZIPFix, available at retail stores and based on the Postal Service database of addresses, also provides carrier-route and delivery-point bar codes for automating large mailings. NB

Managing Your Small Business

Differing styles but identical goals; learning to delegate; the benefits of selling through dealers.

By Roberta Maynard

PARTNERSHIPS

Opposites Attract— With Time And Effort

Bringing complementary skills to a partnership in a professional firm is good in theory. But on a practical level, meshing two different styles and personalities—while maintaining a profitable business—can present quite a challenge.

It has been that and more for Deborah Verderame and Tobias Arianna, partners in the New York City firm Landy Verderame Arianna Architects. The two were chosen by the senior partner, John Landy, to succeed him. When he died 18 months ago, the success of the firm rested with the thirtysomething architects, who couldn't have been less alike.

Verderame's design philosophy is traditional, Arianna's more modern. She favored saving money and keeping overhead low, while he wanted to advance the operation quickly with new technology and design systems.

But the two have forged a strong partnership by learning how to use their differences to the company's advantage rather than let them become points of conflict. Their frequent, heated arguments gradually gave way to compromise.

The struggle, which they say has eased, was in making personal preferences secondary to the good of the firm and the quality of the work. Their ability to do so has been the key to success.

Arianna now concedes that Verderame's more cautious approach to spending has kept his buying impulses in check and has been beneficial for the firm. Rather than buy all or nothing, they made a wish list and planned for purchases systematically.

On the creative side, they learned that their different approaches allow them to accommodate the preferences of a variety of clients. On some projects, says Verderame, a synthesis of both styles occurs, "sometimes resulting in our best work."

Other factors that have helped cement their business partnership, they say, are promoting a sense of humor in the office and jointly celebrating positives, such as landing new clients. And, like partners in any good relationship, both have been careful to put their disagreements behind them.



PHOTO: ©ARNOLD ADLER

Although at one time *she might have felt like taking a swing at partner Tobias Arianna, Deborah Verderame—and Arianna—learned that their architectural firm can be enhanced by exploiting their differences.*

Regular communication is also important, and to ensure it they have decided to continue sharing an office.

Outside the office, though, they don't socialize—period.

"On a personal level," says Arianna, "we're totally incompatible. But professionally, we definitely feel like we need each other. Combined, we're much stronger than we are apart. When we disagree, we always come back to the fact that the firm is doing well." ■

MANAGEMENT STYLE

Do You Delegate As Much As You Can?

By aligning duties in a more efficient way, delegating not only can make for greater overall productivity but also can reduce overload and burnout of managers. To learn whether you are a good delegator, answer "yes" or "no" to each of the following questions:

■ Do you often work overtime?

■ Do you take work home evenings and weekends?

■ Is your unfinished work increasing?

■ Are daily operations so time-consuming that you have little time left for planning?

■ Do you keep control of all the details needed to do a job?

■ Do you frequently have to postpone long-range projects?

■ Are you distracted by constant unexpected emergencies?

■ Do you lack confidence in your subordinates' abilities to shoulder more responsibility?

■ Do you find yourself irritable and complaining when the work of your group doesn't live up to expectations?

■ Do conflict, friction, and loss of morale characterize the atmosphere of your work group?

■ Do your subordinates defer all decisions to you?

■ Do you instruct your subordinates to perform certain activities, rather than accomplish certain goals?

■ Do you feel that you're abdicating

your role as a manager if you ask for your subordinates' assistance?

■ Have subordinates stopped presenting their ideas to you?

■ Do operations slow down much when you're away?

■ Do you believe that your status and the salary you earn automatically mean that you have to be overworked?

If nine or more of your answers are affirmative, it's likely that you're not delegating enough. If so, identify the reasons, and work on eliminating them.

Here are the most common reasons:

Lack of patience. (It takes longer to explain it than to do it myself.)

Insecurity. (I'm so eager to prove myself that I refuse to delegate.)

Inflexibility. (I'm convinced that nothing can be done properly unless I do it myself.)

Inadequacy. (I'm afraid of being shown up.)

Occupational hobby. (I'm so attached to some aspect of the job that I just don't want to give it up.)

This test is one of many in a new book, *Think Like A Manager*, by Roger Fritz, who has 30 years' experience as a corporate manager, university president, and management consultant. The $16.95 book can be ordered from Career Press by calling 1-800-CAREER-1 (1-800-227-3371). ■

DISTRIBUTION

Making The Switch From Direct To Dealer Sales

Cutting fixed costs is a major advantage to selling products through independent dealers rather than employing a sales force to sell directly to customers.

And that was the primary reason Clifford W. Gartung made the switch after a decade of selling directly the modular office dividers made by his company, Pleion Corp., in Santa Ana, Calif.

When he sold directly, Gartung's sales and marketing costs equaled 25 percent of revenues. Using dealers—and paring his sales force from 30 to five—has reduced that cost to 12 percent.

Increased distribution, without adding cost, has been another benefit. Selling to a dealer across the country quickly gets the product into a new area, whereas the only way to increase distribution with direct sales, Gartung says, is to increase the size of his sales staff.

A trade-off in selling to dealers, he says, is loss of control, particularly with pricing. "You can lose sales if dealers get a little greedy and raise your products' prices to the customer to increase their own margins." And, he says, it's necessary to keep close watch not to overextend credit to dealers.

Another factor to consider is the standard selling method used in a given industry. When Gartung began selling directly about 10 years ago, his competitors were also doing so. There were fewer dealers then. Most had arrangements with major manufacturers and weren't interested in working with smaller ones like Pleion.

But times have changed. As large companies began to set prices with lower profit margins, Gartung says, dealers became more willing to work with small manufacturers. Now, selling directly is considered outmoded in his industry.

Companies should also be mindful of how well their product can compete. "There's no way you can get dealers to do an exclusive [arrangement] to sell your product. Smaller companies just fight for position," says Gartung, who has about 50 competitors.

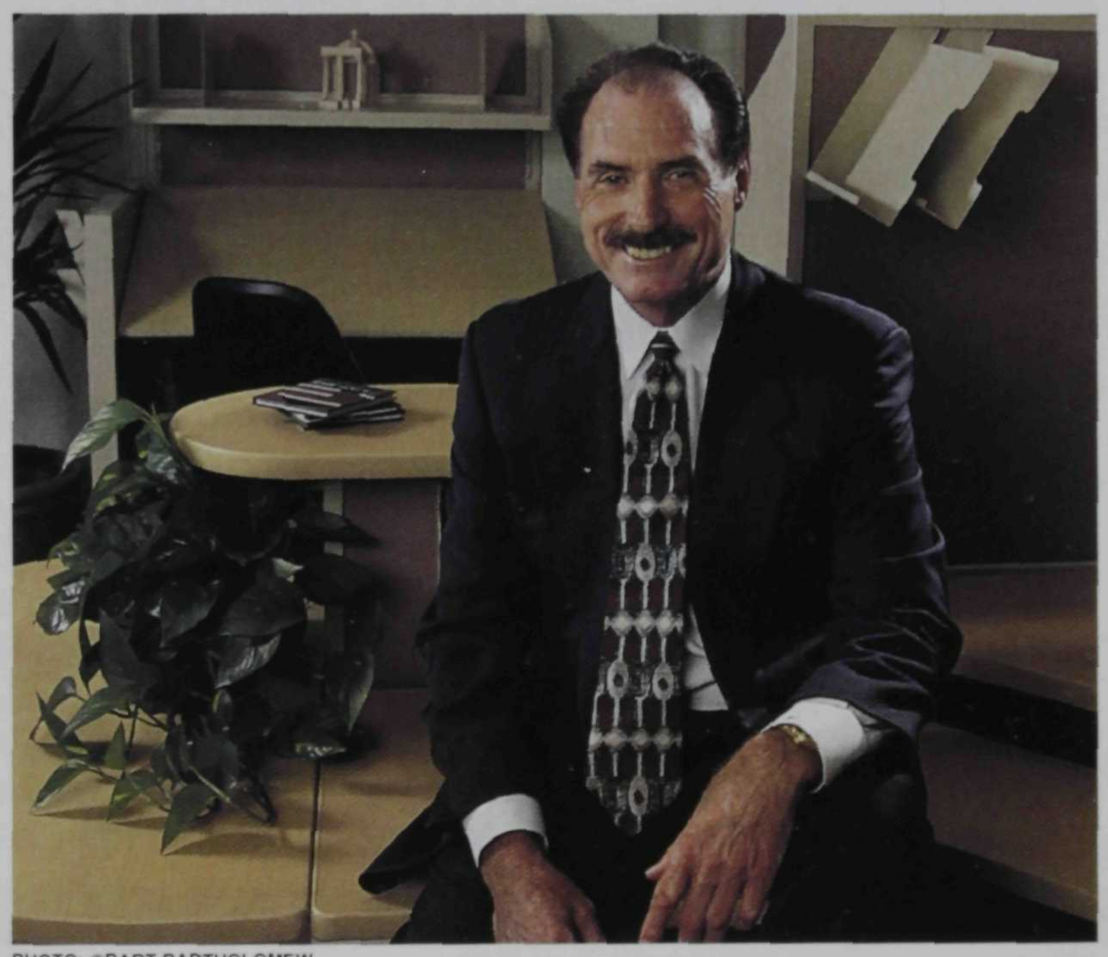


PHOTO: ©BART BARTHOLOMEW

Selling through *independent dealers rather than directly to customers cut costs for Clifford W. Gartung's company, which makes office dividers.*

To keep dealers' business in the modular-office-furniture industry, he says, a company not only has to produce a good product but also must ship faster and provide better customer service than its competitors.

His advice to firms making the switch is to be prepared to cut prices initially to attract dealer business, then to build commitment from dealers slowly until they are regularly selling your product and increasing the volume. ■

ADVERTISING

Let Your Fingers Walk Away From These 'Bills'

Don't be fooled by the familiar "walking fingers" logo on what may appear to be a Yellow Pages invoice. As much as $500 million a year is being collected by directory publishers who use the recognizable but never-trademarked logo on solicitations to potential advertisers, according to the Yellow Pages Publishers Association (YPPA), a nonprofit trade organization in Denver. Small businesses make up one of the Yellow Pages' largest categories of advertisers.

To spot what only appears to be—but isn't really—a Yellow Pages bill, look for these signs: the absence of a telephone number; a disclaimer that "this is not a bill," or fine print on the reverse saying it is a solicitation for an ad; an "amount due" that is generally between $100 and $200; and a statement that the directory is nationwide or statewide rather than local or regional.

Before paying for directory advertising, check your files for pending contracts with Yellow Pages publishers to ensure that the bill is for advertising you have ordered.

According to law-enforcement and U.S. Postal Service officials, many of the "walking fingers" directories for which ads are solicited either are never published, are distributed to a very small group, or contain only a few lines of type for each company.

If you receive such a solicitation and suspect the company behind it may engage in such practices, you could contact your local Better Business Bureau or your state attorney general's office, or call the YPPA hot line at 1-800-841-0639. You could also notify the regional postal inspector.

In addition, you may want to place photocopies of the solicitation on office bulletin boards and circulate them among accounts-payable employees. ■

NB TIP

Small-Business Revolt

A new book by Richard L. Lesher, president of the U.S. Chamber of Commerce, recounts the political revolt by small-business people that produced the pro-business Republican congressional majority in the 1994 elections. The book examines the reasons behind that turnabout, particularly the increased role of government in regulating the workplace.

Meltdown on Main Street: Why Small Business Is Leading the Revolution Against Big Government (Dutton, $22.95) is available in bookstores nationwide, or it can be obtained by calling the publisher at 1-800-253-6476. NB

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

Not Your Usual Dome-icile

By Margie Slovan

It's a stormy November night at Beverly Beach State Park on the Oregon coast. Six sleek, gray heads bob through the waves—harbor seals, out hunting for dinner. Anyone who knows winter in the Pacific Northwest would expect the park to be deserted, but no . . . 12 little lights flicker on the shore. There are no cabins at this park. They're not lights from recreational vehicles. People couldn't possibly be *camping* here, could they?

Say hello to the yurt, the biggest money-maker to hit the Oregon state parks since campsites were introduced at them about 70 years ago. A yurt is a fabric-covered, domed structure that hails from Mongolia, where it has been the perfect home for the region's nomadic tribespeople since about 200 B.C.

The modern design, however, complete with weatherproof covering, vinyl windows, and a lockable door, is the invention of Alan Bair, an entrepreneur from Cottage Grove, Ore. It is what Bair calls "luxury in the wilderness," and it is now spreading around the state, the nation, and vacation resorts worldwide.



PHOTOS: ©BILL MACDONALD

Beyond the tent: *Fabric-covered, leak-proof yurts designed and built by Alan Bair offer comfort seldom found at campsites.*

Although Oregon officials won't specify dollar figures, they say yurts purchased for tourist rental at Oregon state parks have resulted in year-round campground occupancy and are producing more income for the park system than do rentals of campsites for recreational vehicles and tents.

It was a *National Geographic* article over two decades ago that sparked Bair's interest in yurts. Adapting designs from several sources, he built his first yurt in 1975 as a temporary home for his wife and infant son on their newly purchased rural property near Cottage Grove.

The local news media ran stories and pictures, and soon Bair, who had been remodeling houses and doing some graphic-design work, found himself in the yurt-building business. He named his company Pacific Yurts. "I wasn't sure what an entrepreneur was, but I became one," Bair says.

"The first few years were a real struggle," he says, "but I was young and really believed in the product." He saw the housing potential in yurts: relatively cheap, easy to build, and environmentally friendly. Bair set up shop in an old dairy barn with two other young entrepreneurs. "We shared information and resources. It was kind of an incubator," he says.

But with no formal business training, Bair relied mostly on instinct in those early years. He soon discovered that his customers were his best business advisers. One woman, for example, wanted a yurt with French doors. Bair complied, and French doors soon became a top-selling yurt option.

Customers also helped him devise a marketing plan. By tracking how customers used the yurts, he says, "we established what was most beneficial to them and moved company resources to those areas." Homeowners cramped for space put yurts in their back yards; resorts use them for tourist accommodations. They're also used as banquet rooms, art studios, and concession stands.

Bair has also learned that giving respect to employees and building their loyalty are important to business success. Some of them are displaced timber workers. One produced a valuable report on how the

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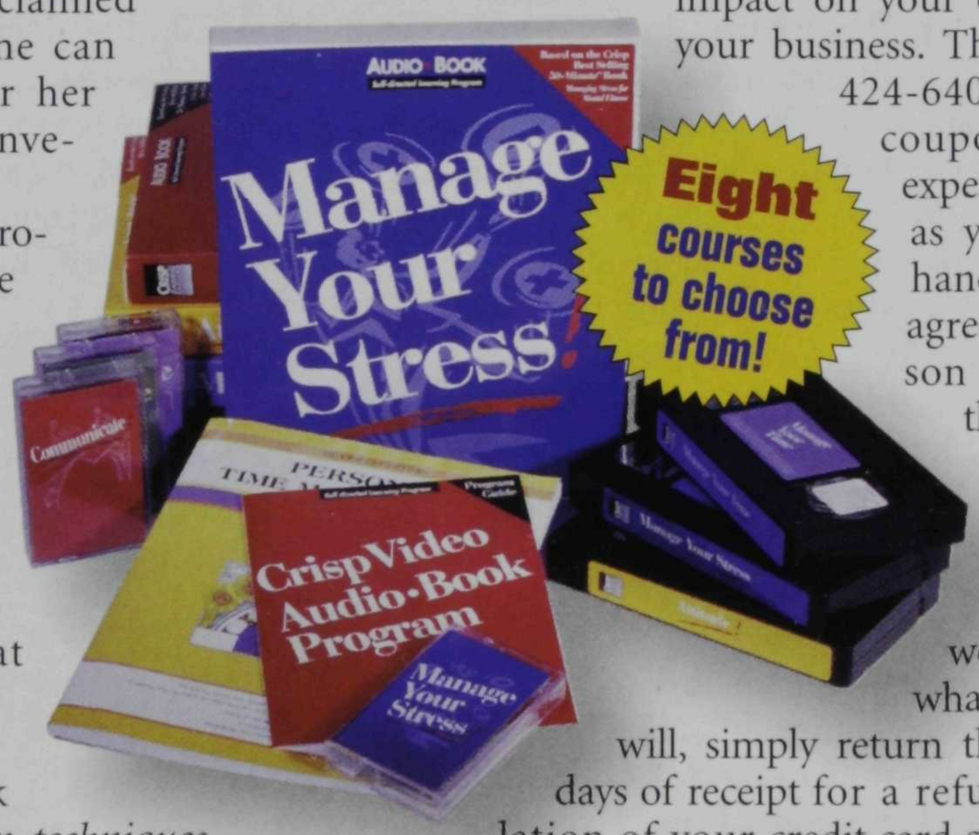
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company could make better use of the second-growth lumber that goes into the yurts.

Pacific Yurts now has 17 employees and sells more than 200 yurts a year. Yurts come in six sizes, from 12 feet to 30 feet in diameter, with an average price tag of $5,000. Skylights and insulation are extra.

Three years ago, Pacific Yurts doubled in size when it expanded into the fastest-growing market of the tourist industry: "ecotourism," or travel to undeveloped areas that emphasizes respect for their environments and people. Being easy to build and transport (the parts fit into the back of a pickup truck) and requiring little site preparation, yurts fill the bill for shelter "that has low environmental impact and a high degree of comfort," says Bair.

Pacific Yurts has received several honors over the years, including a 1994 U.S. Small Business Administration award as the Northwest's top small-business exporter. But for Bair, the most satisfaction comes from the service he can provide to customers. He once sold a yurt to a man whose family's lodge on Washington's Mount St. Helens was swept away when the active volcano erupted in 1980. "He couldn't afford to rebuild the lodge," Bair says, "so he bought a yurt as a base camp to show people the forces of nature. That's the kind of solution I find very rewarding." ■

Margie Slovan is a free-lance writer and radio producer in Seattle.

His Piece Of The Pie

By Sharon Nelton

Dominick A. Pulieri was just 17 and already a veteran pizza maker 36 years ago when he and his sister, Mary Jean, began selling pizza from a takeout stand in Rehoboth Beach, Del.

It was an experimental outpost of Mary Jean's husband's pizza restaurant back in Harveys Lake, Pa. Joe Paglianite had learned there was no pizza at Rehoboth, and he offered his brother-in-law a chance to manage the enterprise and earn some money for college. Summer at the beach? It was a young man's dream.

Business got off to a slow start. "The local people? They never even heard of pizza," says Pulieri. He and Mary Jean had trouble even giving samples away, and in the early part of that first summer, Pulieri recalls, they brought in only about $7 a day.

As the summer progressed and the town filled with vacationers from places such as Washington, D.C., where people were more familiar with pizza, business improved. He was thrilled on July 2—his 18th birthday—when the day's sales totaled $99.

Now Pulieri's company, Grotto Pizza, Inc., a chain of 15 popular restaurants in Delaware and Pennsylvania, rings up $25 million in annual sales and, during peak season, employs 2,000 full- and part-time workers. Pulieri last year was named Delaware's Small Business Person of the Year by the U.S. Small Business Administration.

The son of Italian immigrants, Pulieri was reared in Wilkes-Barre, Pa. Pizza, he says, was "something I grew up with." He worked for Paglianite during the summer at the Harveys Lake restaurant from the time he was about 13, and Paglianite is still a partner in Grotto Pizza.

The original Grotto Pizza was located several doors from the beach. A branch right on the boardwalk was opened in 1962. Pulieri continued the enterprise during the summers when he was a college student and then for five or six years more when he was a high-school science teacher in Smyrna, Del. In 1970, he decided to become a full-time businessman.

Pulieri's pizzas seem cheesier than most. At Grotto, Pulieri explains, the cheese is laid down first, and then the sauce is added. At most other shops, he says, the sauce is put down first and then the cheese goes on top; that makes other pizzas look like they have more cheese when, in fact, they don't. Pulieri also points out that, as a quality measure, the cheese that Grotto uses is made to specifications at a Wisconsin cheese house. "It's a very controlled thing."

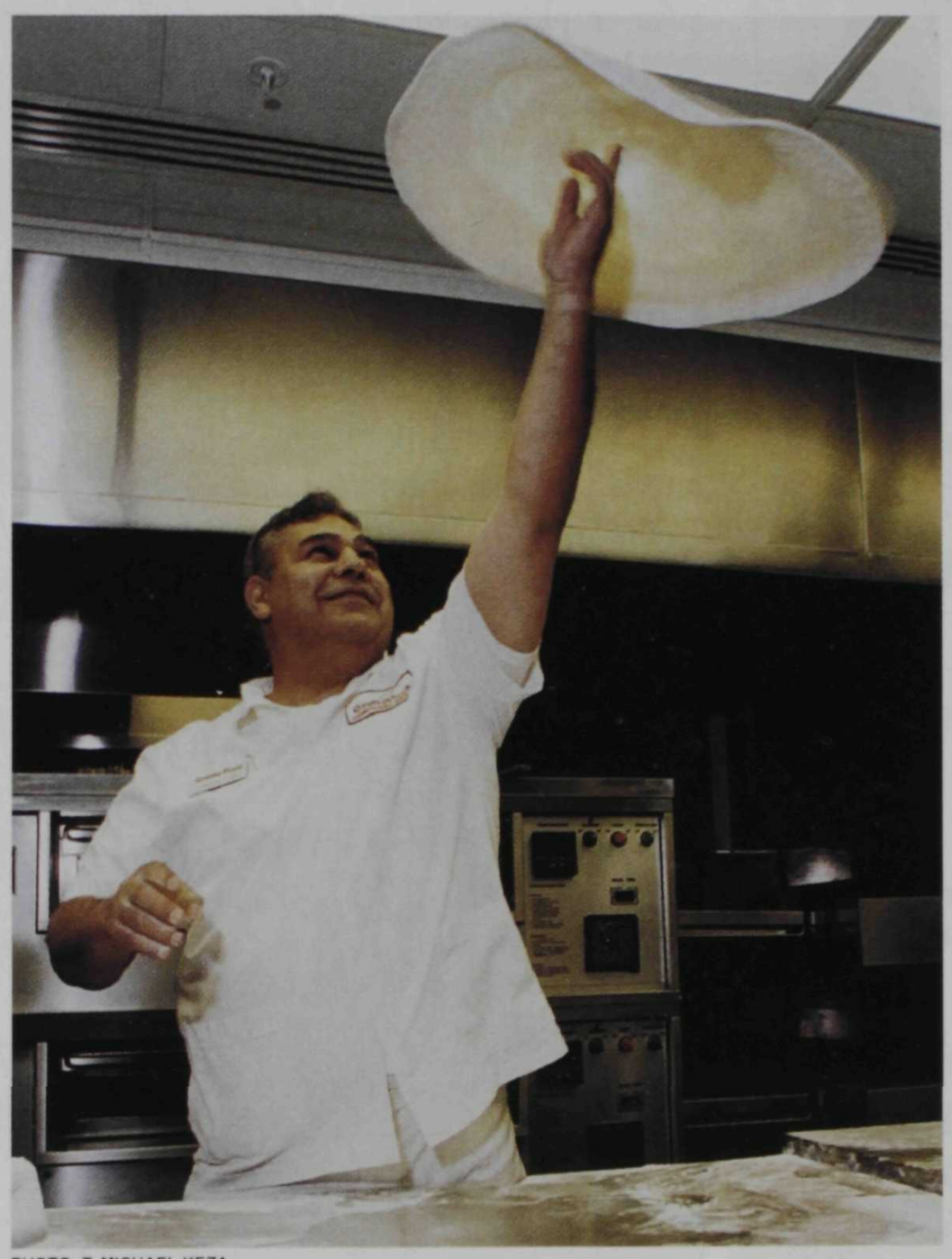


PHOTO: T. MICHAEL KEZA

Customers *flip for the fare at Dominick A. Pulieri's Grotto Pizza chain, where the cheese is a bed for the sauce.*

Grotto's 12 Delaware locations include the Grand Slam Sports Bar and Restaurant near Lewes and a food court at an outlet center. Just opened is a Grotto Pizza in Newark, Del., aimed at attracting University of Delaware students and strengthening the company's year-round markets.

Pulieri envisions expansion throughout Delaware. And the Grotto name now has such recognition among vacationers from Washington that Pulieri thinks he could open stores there, too. He's also considering taking one aspect of his business public—perhaps the sports bar and restaurant.

Though Pulieri is president of a growing empire, it's not unusual to find him making the pizza in one of his restaurants. When he's working in the kitchen, he says, he gets "a good sense of whether a restaurant's running smoothly."

When the company was smaller, he says, he could do many things himself, such as train employees and let them know directly that they had his support. Now the challenge is to strengthen a formalized training program that has been put into place and to make sure that store managers convey the message to workers—many of whom are young—that the company will be there for them. "You have to care about your employees," he says.

Pulieri describes himself as quiet and shy, but he's not that way when it comes to promoting his business. He has a condo in Florida that he retreats to for a short time in the winter. And when he spots a parked car with a Delaware tag in the Sunshine State, he slips his card and a coupon for Grotto Pizza under the windshield wiper with the message, "Have a pizza when you go back to Delaware." ■

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MAKING IT

A Framework For Success

By Roberta Maynard

Hurricane Iniki was no match for Bill Wyland, at least not in the long term. Maybe it's because Wyland, a born entrepreneur, always has an eye on the horizon rather than on the debris flying around him.

The 1992 storm that demolished his five art galleries and collectibles stores on the Hawaiian island of Kauai only accelerated his expansion plans. Within two months, he had opened two new galleries on Oahu to keep his Kauai employees working until they could return home. He has since reopened four Kauai stores.

This sneaker-clad 37-year-old is an unlikely purveyor of fine art; he seems more suited to life as a professional skier or a seller of real estate. He did those things, too, before linking his marketing skills to the artistic talent of his older brother, who is known simply as WYLAND. It has been a profitable combination.

In just eight years, the two have built Wyland Galleries Hawaii, a growing empire of art galleries and a chain of stores selling collectibles. Bill Wyland oversees the Hawaii stores, while his mother and two other brothers run separate operations in a half-dozen states on the mainland. Soon there will be galleries in Australia, New Zealand, and Singapore as well.

Success began on a Fourth of July weekend with the opening of the first Wyland gallery on the scenic North Shore of Oahu. Having run out of money, Wyland couldn't complete the interior of the gallery; neither could he afford to advertise the event.

The building had no sign. He simply put his brother's dramatic paintings of aquatic life in the windows of the unfinished space. Without a credit-card machine, he had to accept only cash and checks. Fortunately, the customers—mostly residents of the area—offered plenty of both.

Within months, Wyland opened a second store on neighboring Maui, thus beginning his expansion strategy of putting the profits from one store toward opening the next. These days, Wyland doesn't have to come up with the $600,000 it typically requires to open a new location. The galleries are such known profit makers that developers pay most of the upfront costs to get Wyland into the space.

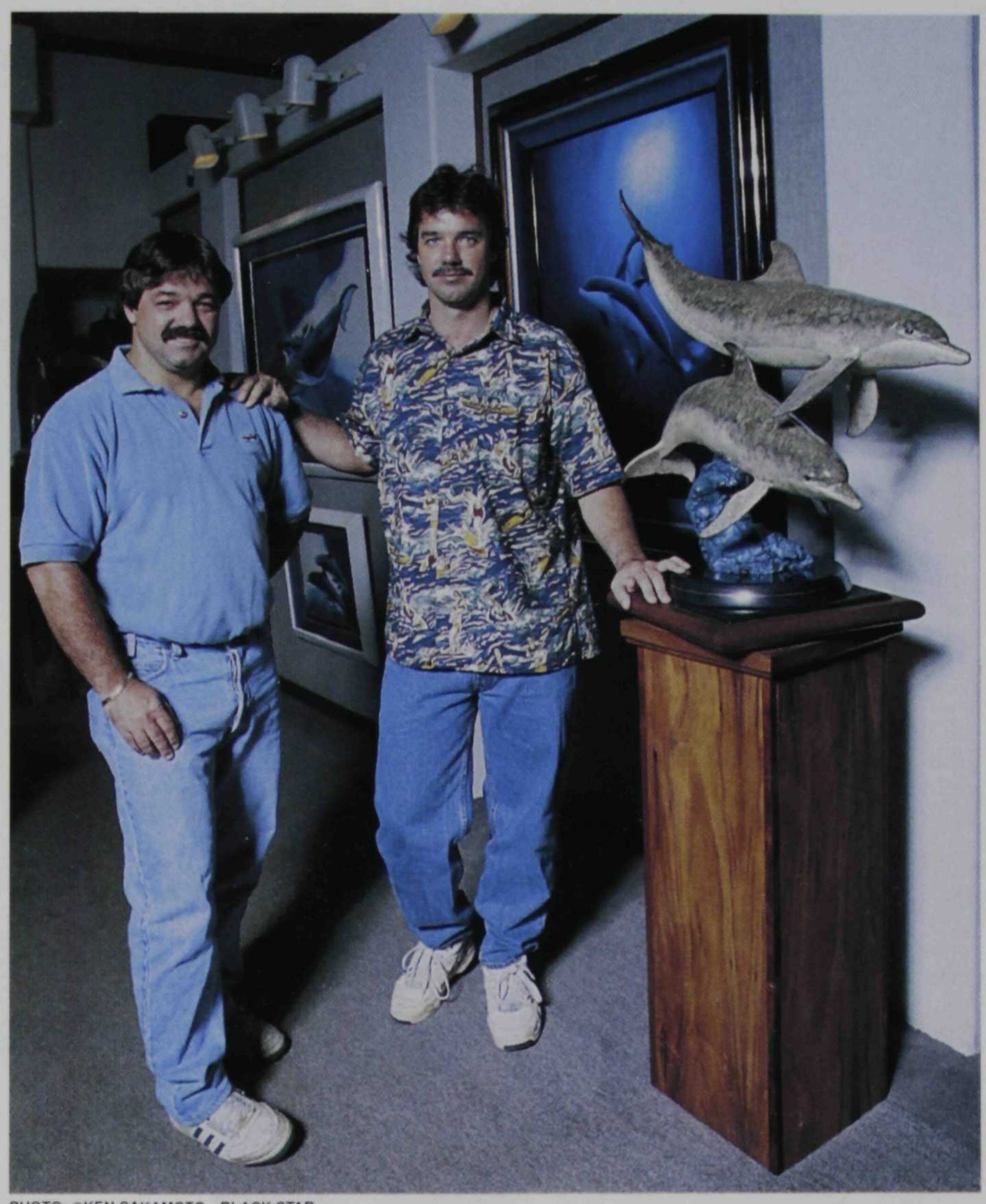


PHOTO: ©KEN SAKAMOTO—BLACK STAR

By combining *his marketing skills with the artistic talent of his brother, known as WYLAND, right, Bill Wyland has built an empire of profitable art galleries and collectibles stores.*

The 14 Hawaiian galleries now feature the work of 40 artists, including WYLAND's, and a second line of fine-art stores is being planned to showcase different styles of artwork. The art pieces range in price from $500 to $500,000; the average sale is $2,600.

Thousands of preferred customers belong to the Wyland collectors' program, which provides a line of credit that allows them to make purchases with minimal paperwork.

Timing had a lot to do with the success of the business, which was started during the recession in the late 1980s. He began "in exactly the 'wrong' market," says Wyland. "Times were bad. Other galleries were stopping their marketing and advertising. But to me, there's no better time to do business. Today, you couldn't get the lease rents that I got." Nor could he have gotten the "buildouts"—the outfitting of the stores—at the low prices he got then, he says. "If times had been good, I never would have had all these galleries."

Wyland also recognized a change in the fine-art business and capitalized on it. "A lot of people in this business just took for granted that customers were going to come in and look at that piece [of art] and say, 'Give me that one and that one.' Well, it doesn't happen anymore. Now, in Hawaii, you have to know your material. You have to have extremely good marketing, good sales consultants, sales training." He built these things into the operation. In fact, a training firm is kept on retainer to ensure regular training every month for every employee.

As a manager, Wyland is strictly hands-off. "The key to any business is hiring the right people. I don't get involved with the day-to-day. I'm looking two and three and four years out, asking where do I want to be."

Wyland's vision for the business has brought him a long way from the poor Detroit neighborhood he escaped years ago by joining the Air Force. He knew when he opened that first North Shore gallery that it was only the first of a chain of successful stores.

"See, I'm heavily into goal setting," he says. "When I wanted a new Mercedes, I put a little car on my desk until I got it. Before I even got into business, I told my general manager that in five years I would get 12 stores up in Hawaii—we got 14."

His goal in the next two years is to take the Hawaiian operation to $50 million in revenues from $21 million last year. Another goal is to retire at 40.

From the beginning, Wyland focused not on what other galleries were doing but on bringing innovation to his own stores. "I don't believe in competition," he says. "I think if you're the best, you don't have to worry about who's behind you. I'm always looking forward." NB

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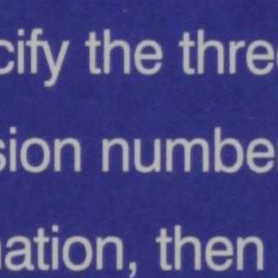
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COVER STORY

The Little Guys Strike Back

By Dale D. Buss



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Giving amateur artisans *hands-on experience is the successful—and fun—retail innovation of Petroglyph Ceramic Lounge co-owners Michael and Jennifer Rubin, with customers Valerie Nichols, center, and her daughter, Lisie.*

Independent store owners have good reason to be a solemn lot these days. Huge discount chains are cutting a wider and wider swath through American retailing, gobbling up market share, taking over entire new categories of merchandise, and irresistibly driving down prices. The chains have become so prevalent that they're starting to nibble on one another, and even once-invincible Wal-Mart has seen earnings dip.

Competition for customers from catalogs and on-line retailing keeps growing. Yesterday's stronghold, the shopping mall, now is a struggling institution. And consumers—lurching about capriciously in the psychological pinball machine of modern marketing—have become frustratingly unpredictable.

As a result, bankruptcies of retailers across the United States have climbed to an average of about 17,000 chains and individual stores a year during the '90s, up from fewer than 11,000 a year during the '80s, according to statistics compiled by the accounting firm Price Waterhouse. Entire categories of independent retailers, such as pharmacies, have become endangered.

Yet, even as attrition rises and "category killers" dominate, something is stirring among many independent store owners throughout the country. It's the attitude that "there is plenty of room, even under today's circumstances, for my store, and I'll

Small, independent retailers, increasingly threatened by big discount chains, can turn to a number of strategies that will help them thrive.



do nothing less than reinvent it if I must."

Don Taylor, an Amarillo, Texas, retail consultant who used to own a lawn-and-garden store and is co-author of a recent hit book, *Up Against the Wal-Marts: How Your Business Can Prosper in the Shadow of the Retail Giants*, says, "Those independent store owners who choose to compete—and implement innovative strategies—really can succeed in going head-to-head with anybody."

Michael Rubin, a successful new retailer in California, says that if the chains are "steamships plowing through the ocean, then we have to be the cigarette boats zipping around and through them and changing direction on a dime. That must be our advantage when going up against the tremendous cash and resources of the biggies."

Perhaps the most encouraging characteristic of this fresh breed of stubbornly competitive store owners, however, is that they don't just operate defensively. They aren't always just looking over their shoulders at what the power retailers are doing.

"The 'big boxes' "—everything from giant variety-store chains to "category killers" in retail areas such as sporting goods or electronics—"have been around long enough that independents have either gone out of business or learned how to adapt," says Jay Wedeven, a retailing consultant and principal of The Strategic Edge, in Southfield, Mich.

Today's reinventors of independent retailing are looking their customers straight in the eye and asking: How can I serve you better? While such an approach often involves moves to outflank big discount outlets, these independents' strategies go far beyond that alone.

Here, based on anecdotes of small retailers and the advice of experts, are 10 strategies behind their success, including some words of caution:

1. Make Shopping An Experience

Just having goods in stock and on the shelves isn't enough anymore; increasingly, shoppers require a variety of attractions to give a retailer their business.

"This strategy relies on something you can smell or touch, kind of like when you're trying to sell a home and you put a batch of cookies in the oven about an hour before your open house," says David Wing, owner of Retail Advisors, a Seattle-based consulting firm.

A year ago, Valeria Watson, who designs organic cotton clothing, joined forces with Gary Schuyler, who produced natural body-care products, and opened Virtues, in Phoenix. The store offers not only products but also facials, massages, and other manifestations of the partners' "green" philosophy.

"We call ourselves a 'lifestyle store,' " says Watson. "We have an upscale environment with a heart." Business is so brisk that the pair plan to more than double Virtues' 2,000 square feet next year.

Petroglyph Ceramic Lounge is a retail-entertainment hybrid. At a handful of locations around the San Francisco Bay area, customers select a once-fired item of ceramic ware from hundreds of options, for an average of $15 to $20 apiece. Then they pay $6 to $7 an hour to sit and paint their creation. Petroglyph administers the final kiln-firing right at the store.

"People don't have to get their hands dirty with clay to get the joy of finishing something," says Rubin, co-owner with his wife, Jennifer, of Santa Cruz-based Petroglyph. "And this is something you can't really do at home, especially socially, because it takes so many supplies and so much equipment."

A book nook offers inspiration and ideas for amateur artisans. A kids' cave features videos and other diversions to entertain



CHART: GEORGIA LEIGH MCDONALD

youngsters. Arrangements of tables and chairs and a juice bar encourage interaction; some people even come to Petroglyph on dates. To take maximum advantage of the store's concept, Rubin also has begun offering other activities at Petroglyph, such as mosaic-making.

Expansion of Macon Christian Book Store, in Macon, Ga., two years ago included a 36-seat coffee shop that serves as the setting for regular concerts as well as repast over a hot brew. "The coffee can be profitable, but the idea really is to get people to stay longer in your store," says owner Chris Childers.

2. Focus On Your Store As A Brand

More independents are thinking of themselves not just as a hardware store or a clothing outlet but as a destination that can squeeze more revenue out of each visit by each customer. Some diversify into new lines of products and services and then market the store's personality as the characteristic that binds them.

"The store itself is rapidly becoming a 'meta-brand'—one that encompasses a broad spectrum of categories," says Carl Steidtmann, a leading consultant in the retailing field who is with Management Horizons, a Columbus, Ohio, division of Price Waterhouse.

For example, Tom Young, owner of Foley Rexall Drug, in Foley, Minn., already has outlasted at least one locally owned competitor in part by continually shifting his product mix. When a nearby clothier closed a few years ago in the town of 2,000 people, Young added sweat shirts and T-shirts. He also has opened a soda fountain.



As managed-care health-insurance plans increasingly favor big drugstore chains in the prescription coverage they provide, the number of prescriptions Young fills has been slashed, he says. "We just keep trying different things" to stimulate retail sales, which have become more important to the store's survival. "We don't have a discounter in the area yet, but I think I could compete against one just with our personality and service alone," Young says.

Three years ago, the King Group watched glumly as a Staples moved in a block from King's location, on 33rd Street in New York City. The company had been a family-owned office-supply store since 1956, but the owners knew that the new office superstore in the neighborhood would be a powerful draw away from their shop.

As part of King's strike-back strategy, the store gave increasing attention to phoned-in delivery orders. It also expanded its self-definition: not just a retailer of office supplies but also a purveyor of many more goods and services to anyone who came in the door. King has added a first-class sandwich shop, a comprehensive copy center, and a unique, art-oriented gift center that includes antique furniture and exotic frames. "These customers already were in the same geography as our store; we're just selling more things to them when they come in," says Bob Gillon, chief executive officer.



PHOTO: T. MICHAEL KEZA

A purchasing and marketing *cooperative called Pet Team Inc., launched by Charlie Moore, gives more than 1,200 small retailers economies of scale.*

3. Form Cooperatives

Mimicking long-successful partnerships in the hardware business—such as Ace Hardware Corp., based in Oak Brook, Ill.—and in auto parts—such as NAPA Auto Parts Co., based in Atlanta—more types of independent retailers and their distributors are joining forces to form purchasing and marketing cooperatives that give them the critical mass to be players on today's enlarged battlefield.

Avis Sports, a Morehead City, N.C., distributor of hunting and fishing equipment, three years ago formed such a cooperative, called Avis Sports Group. Now it boasts more than 500 independent sporting-goods-retailer members around the country.

"If something wasn't done to help these dealers compete, our customer base was going to continue to erode," says Gary Zurn, executive vice president of Avis Sports. "While there were purchasing groups, no one was helping independents with the sell-through of products to the consumer.

Under the Avis Sports program, for an initial investment of $2,000 or more, retailers get the co-op's product line, store enhancements that include Avis Sports signs and fixtures, inclusion in slick ads in sports magazines and on national hunting and fishing TV shows, insurance programs, cut-rate credit-card fees, and store-design and business-planning help from Avis' staff.

Even as Gary Waterhouse and his Great American Tackle shop, in Clackamas, Ore., have been competing with Kmart, Sports-Mart, and other nearby chains, sales have risen more than 20 percent since he joined Avis Sports.

At the urging of co-op consultants, Waterhouse installed brighter lighting and new fixtures in his 1,200-square-foot store. Then he watched with glee as Avis' advertising brought customers in the door. "From the ads, people expect to walk into a big discounter, and then they get the personal-

ized service that only an independent can provide," he says.

Pet-food distributor and retailer Charlie Moore, a former investment banker, launched another co-op, Pet Team Inc., a year ago. The group—for retailers not large enough to purchase directly from manufacturers—already has more than 1,200 members.

Supported by 30 distributors, Pet Team retailers are required to stock at least 75 percent of the co-op's product lines, which range from Pet Team-brand dog food to toys. (Aquatic merchandise is not included in the arrangement.)

"Our business is particularly appropriate for this approach because we're combining economies of scale with people's powerful love of animals," says Moore, who operates his Metro Feeds distributorship and two Animal Authority stores in Columbia, Md., and Baltimore. "It's impossible for a discounter to duplicate the enthusiasm and expertise that an independent store offers," he says.

4. Embrace New Technology

Advanced technology isn't just for the deep-pocketed big boxes. Independent retailers also are making an impact on their markets with high-tech applications ranging from multimedia displays to computerized inventory control—and not all of the options are prohibitively pricey, either.

For $800, Musicentro, a Latin-music store in Houston, has installed a device called the Virtual Audio Imager, which allows customers to "test drive" new releases in acoustic isolation from the rest of the 1,600-square-foot store.

The unit creates a restricted listening zone—with an effect similar to that of headphones—by using two stereo speakers mounted under a spherical acrylic dome.

"We think customers will try it and then go tell their friends about it," says Leticia Gonzalez, store manager and daughter of the owner, Guillermo Hernandez.

Jeremy Brown, chief marketing officer of the Virtual Audio Imager supplier, Brown Innovations, of Chicago, says that lots of independent record stores, "cybercafes," and other retailers have ordered the device since it hit the market six months ago. "It dramatically changes the experience you can have in a store," he says.

Jon Lancaster, believing he needed a dramatic shift in the perception of car retailing to compete more effectively for consumers in an era of fast change in the industry, has relied heavily on high-tech applications for his new store, Car America, in Madison, Wis.

There are no vehicles on display in the showroom of the dealership, one of the new breed of used-car superstore. Instead, the center of Car America's showroom features an attention-getting, 14-foot-high, 10-foot-wide "video wall" of TV monitors showing presentations that alternate between a large unified image and multiples of a single, smaller picture.

A short presentation, looping on the screen, familiarizes customers with the store's nontraditional approach to selling cars, which includes a policy of three-day, no-questions-asked returns and exchanges within 30 days.



PHOTO: ©STEVE WOIT

An urban-neighborhood site *for their gift store was a wise choice for Rick Haase and Christine Ward.*

"Sales consultants" then usher shoppers into a nearby kiosk where they use a touch-screen computer to obtain information about specific car and truck models and features.

Effective technologies go beyond merchandising devices alone. Half Hitch Tackle Co. has been electronically scanning each purchase at the point of sale for four years.

Demonstrating a commitment to this technology that is unusual among independents, owner Tom Putnam has invested more than $100,000 in scanning equipment for his three fishing- and boating-supplies outlets in and near Panama City, Fla. He spends about $25,000 more each year keeping it up to date.

Scanning enables Putnam to track the sales of each item easily, reorder efficiently, maximize inventory turns, and yet keep "out-of-stock" slip-ups to a bare minimum. "We can precisely track what customers are buying and not buying, and if some—say, our charter-boat prospects—aren't buying a group of products for some reason, you can adjust.

"You also can quickly know this spring whether you need to have 500 of some hot-selling item ready for next year."

5. Be Wary Of The Internet

The global network of computers can be a vast source of valuable information for independent retailers. Sites available via the Internet can provide specifics, for example, on what's appearing at major national trade shows without business owners' having to travel.

But as a selling tool, the Internet hasn't yet lived up to its hype, and some small retailers are discovering that firsthand.

Watson, of the Virtues store in Phoenix, created a site on the World Wide Web and began selling her Virgin Territory clothing line on it last year. But she discovered that many of her potential customers became ensnared in the confusing architecture of the Web and couldn't even get to her site. Others were turned off by how long it took their computers to download dense graphic images from Virgin Territory's 80-page site.

"We wanted to make it a journey for people into our merchandise, but the reality is most people don't have time for it," Watson says. "So we pulled our Web site and are going to wait for things to settle down a bit before we try it again."

Since Kris Arnston established a Web site this spring, she has netted a few thousand dollars in purchases of the Danish gifts—including sweaters, candleholders, and crystal animal figurines—sold at her store, The Red Horse, in Steamboat Springs, Colo. But she has already had to yank her line of clog shoes off the Net because her Web-site manager is so busy that he can't update her merchandise lineup quickly enough. "It's ironic that speed is the problem, because we're dealing with computers," she says.



6. Go Where Others Aren't

By now, this advice is well-worn, but it remains potent. When power retailers own the neighborhood, competing independents

should steer as clear as possible of their merchandise lines—and certainly not try to beat the giants on prices of comparable goods. But that doesn't mean there's nothing left. June Jean is one of thousands of small retailers who are managing to boost their businesses by going where the big stores aren't.

For her Hippety Hop Toy Shoppe, in Anchorage, Alaska, that has meant figuring out how to go over, beneath, and around the products sold by the Wal-Mart, Kmart, and Toys R Us stores in her area.

Epiphany struck a couple of years ago for Jean. Soon after she opened her store in 1991, Hippety Hop generated brisk sales of Step 2, a toy line for young children, and dedicated an entire showroom to the brand.

But when Toys R Us opened nearby two years later and began offering Step 2, sales of that line at Jean's store fell off precipitously to just one-third their former level.

"How do you fight that?" Jean says. "I fought it by saying, 'I'm not going to get hit with a brick like that one more time.' I got out of Toys R Us' lines." And she got more aggressive. "We woke up and realized that we were small enough that we weren't getting noticed, so we had to make a bigger statement."

Jean added about 500 square feet to her 2,100-square-foot, strip-mall site and doubled the front window area. She added a selection of gifts for grown-ups "because kids in the store often ask for surprises they can get for their parents," Jean says. The store began offering fine candies and other treats.

And most important, Jean expanded specialty gifts for children ages 9 through 17, ranging from science toys to battery-operated miniature Mercedes-Benz trucks to Jurassic Sand—used for molding figures, and shipped in from the lower 48 at great expense.

"The discounters just don't get in-depth in toys for that age range, especially where it's more specialized stuff," she says. "That's where the void seemed to be, so we filled it."

The result? A 20 percent gain in first-quarter sales over a year ago. Jean believes growth will continue indefinitely.



PHOTO: ©SANTA FABIO—BLACK STAR

At their discount-housewares store, *Walter and Gerry Goodman have built the business by emphasizing service to customers such as James Geissbuhler, center.*

7. Fulfill An Unmet Need

As long ago as the mid-1980s, Janet Gast, Patt Buller, and their friends were frustrated at their inability to find a decent selection of quality sports equipment and clothes for women.

So Gast, downsized from a large company in Minneapolis, and Buller decided to move out West and open their own store even though neither had a speck of retailing experience. The Fore Her Golf Shop opened in North Scottsdale, Ariz., in 1994.

"The primary focus of nearly all golf stores is men," says Buller. "That left a huge untapped market for us, and women's equipment in general is the fastest-growing segment in sports."

Sure enough, in its first year, Fore Her's sales exceeded any expectations the two women had. Last year, sales grew an additional 40 percent, and the 2,300-square-foot store promises to yield even better returns this year.

In addition to the savvy choice of location—within 20 miles of 50 golf courses—selection, merchandising, service, and public relations all have contributed to Fore Her's success. The store carries 14 clothing lines, three dozen shoe styles, and a few dozen varieties of club sets.

Fore Her emphasizes variety, Buller says, because women want to wear something distinctive. Instead of ordering 20 of each size of a piece of clothing as a store geared to men might do, Buller and Gast order just two or three of each size of a particular outfit.

Men are comfortable shopping through stacks of clothes, but Buller and Gast are careful to merchandise their wares in painstakingly arranged boutique style.

The store offers custom fitting of golf clubs, plus lessons and clinics. And for "preferred customers," it maintains a dossier of sizes and preferences that husbands and boyfriends can access to ensure successful gift selections.

At pottery innovator Petroglyph, success began in a similar way. Michael Rubin says that after he and Jennifer met while working together in film production, she was experiencing difficulty "finding activities to do with her friends that didn't revolve around food or some competitive athletic thing. It really irked her that those were the only alternatives." She spoke wistfully of women's quilting bees of yore.

After the Rubins saw pottery-making grow in popularity in California, a light went on. "We saw how we could take ceramics from being an isolated activity to a social activity, and a successful retail concept as well," says Michael.

A corollary to this strategy is that if the retailing idea is new and powerful enough, it can lead to the opportunity for exponential growth and quickly transform a tiny retailer into a medium-sized or larger company.

Both Fore Women and Petroglyph plan rapid growth. From five Bay-area stores planned for this year, the Rubins intend to go national in 1997 with a combination of

company-owned stores and regional franchises. Buller and Gast plan to have a second Fore Women open by around year's end and to open as many as 10 more within the next few years. "We'd like to become known as the Nordstrom's of women's golf," Buller says.

8. Location, Location, Location

While some traditional regional shopping malls remain strong and others still are being built or expanded, many of them are suffering because growth on the fringes of metropolitan areas has left them behind, because there's more competition from other malls, or because time pressures on their target shoppers are keeping them away. And many retailers find strip malls increasingly less attractive settings.

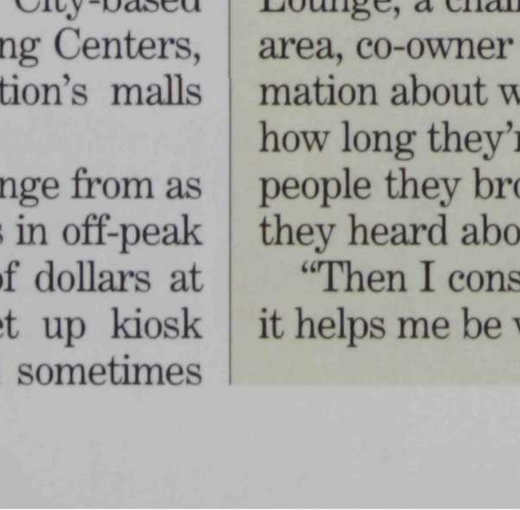
"No sector of retailing is at greater risk [than malls] over the next five years," says Steidtmann, the retailing consultant.

So some independents are choosing alternatives. For example, Rick Haase and his wife, Christine Ward, located their Patina gift store in a typical gentrifying urban neighborhood in Minneapolis when they opened it in 1993.

"We're probably one of the most overmalled cities in America, so we wanted to establish ourselves as a separate entity," Haase says. "And in a strip mall you're obligated to keep someone else's hours, and have a uniform look, instead of your own identity."

To pick out their specific spot, the couple scouted unusual-looking real estate in their target neighborhoods, searched for visible signs of neighborhood pride, and even cased intersections. "We'd look at the people who were coming to a corner for other business and try to determine whether they'd be potential customers for us," says Ward.

And indeed, Patina has become "a destination store," Haase says. Sales have been so strong, in fact, that the couple has opened a second Patina elsewhere in the city. This summer, the first store will move to a larger home, in a similar location 10 blocks from the original site.



9. Try A Kiosk

To cut the expense and risk of starting a retail operation or experimenting with a new concept, many independents are trying short-lease kiosks or carts at a mall. According to the New York City-based International Council of Shopping Centers, about three-fourths of the nation's malls cultivate these alternatives.

Monthly rentals for kiosks range from as little as several hundred dollars in off-peak seasons to tens of thousands of dollars at Christmastime. Most malls set up kiosk retailers with a phone line and sometimes

Marketing By Database

Developing and plumbing a database of information about individual customers is an increasingly popular and effective way for independent retailers to exploit their greatest asset: existing clientele.

The biggest trick is to get customers to give up the information in the first place.

Chris Childers, owner of Macon Christian Book Store, in Macon, Ga., is continually coming up with new ways to maximize marketing using the customer data stored on his personal computer. Recently, for example, when a new recording by Carman, a popular Christian singer, was released, Childers mailed postcards to the 600 specific customers who had bought other Carman albums recently. His database program filtered each of these prime prospects from its list of 8,000 of the store's music-buying customers.

And to promote the second album by the group Third Day, Childers used the database to issue postcards to 85 households of people who either had purchased the group's debut recording or whose buying patterns indicated a preference for similar styles of music. The $21 mailing, Childers figures, yielded 35 sales of Third Day's album, at a retail price of about $15 apiece.

"For our spring catalog, the database culled its overall list of 25,000 customers down to 15,000 by selecting only those who had made significant recent purchases," Childers says. "So instead of the expense of mailing this catalog to everyone, we only send it to our best customers."

From customers of Petroglyph Ceramic Lounge, a chain in the San Francisco Bay area, co-owner Michael Rubin gleans information about what supplies they use and how long they're in the store, how many people they brought with them, and how they heard about the store.

"Then I constantly analyze this data, and it helps me be very exact not only with how we position our advertising and mailings but also [in] selecting locations for our next sites, based on the matchup of our customers and the demographics of an area," Rubin says. "I can even project whether adequate parking would be a potential issue at a store location because I know how long my customers spend in our stores."



PHOTO: T. MICHAEL KEZA

Computerized lists *are valuable tools for bookstore owner Chris Childers.*

Tracking customer activities and preferences by entering the details of each sale is easy when drawing upon product bar codes or other standard data in transactions. But the basic personal information that retailers require as a foundation for an individual database file is something that many consumers aren't eager to give out to a store clerk.

Among the hindrances are their concerns about privacy, the volume of their mail, and even the time it takes to convey details about themselves.

At Macon Christian, clerks obtain name, address, and phone number from customers by asking if they'd like to be on the store's mailing list. "Most seem to appreciate the service," Childers says. He installed extra checkouts when he remodeled the store in 1994 so that customers wouldn't feel detained by the time required to give such information.

Retailers can also obtain such details by creating a "club" for customers. Retail consultant Don Taylor says that Ruth's, a women's clothing store in Medford, Mass., offers price discounts of 20 percent and more to members of its club.

To join, a shopper needs only to fill out a card that asks for basic personal facts. The data help the store owner, Rick Segel, and employees not only market more effectively but also order merchandise more precisely based on recent or seasonal trends in sales to the store's core clientele.

"The club has allowed them to understand who their customer is, and that's the beginning of all good purchasing," says Taylor. "The idea of a store should not be to sell stuff for manufacturers but to be a purchasing agent for your customer."

other amenities, and many malls get a small percentage of sales in addition to the rent.

For Raj Shahi, an initial kiosk in the Eastwood Mall, in Niles, Ohio, led to a handful of kiosks in other malls where his company, Salone International Inc., offers hair coloring, body piercing, and other hallmarks of the youth culture.

With headquarters in Pigeon Forge, Tenn., Bill and Fran Delozier already had a highly successful chain of 12 conventional stores, called The Christmas Shoppe. But a few years ago the couple also began leasing carts and kiosks during Christmas season in a handful of malls throughout the region.

"We hit the holiday season with the carts, and our stores give us a good season from April through November, with tourism [in nearby Great Smoky Mountains National Park] and everything," says Fran Delozier. "So we have two complementary streams of income."

10. It Still Comes Down To Service

Every other tactic could be for naught if retailers neglect that most basic aspect of their craft: customer service. That's especially true in this era dominated by the baby-boomer consumer, who is short on time and probably on the kindness of strangers as well.

Superior service reliably brings customers back and makes them much more agreeable to parting with more money while they're in the store. It's also something that many power retailers almost by definition have left out of their formulas.

Gerry Goodman and her husband, Walter, built and have sustained their Birmingham, Mich., discount-housewares store, Wells Freight & Cargo, on lavishly serving customers. That means, for example, patiently explaining the traditional thinking behind various types and uses of chinaware to a generation of young women who are unversed in its niceties.

It also means rushing multiple additional place settings to a customer who didn't find enough of her selection in stock, or replacing a plate that had broken even though it had been purchased by the customer several months earlier.

"It's not baloney with us," Gerry Goodman says. "And we've got some families with three generations of women who are customers of our store. That proves it."

For Putnam, of Half Hitch Tackle, dedication to service means obligating his employees to go out of their way to answer customers' questions, no matter how small, niggling, or downright annoying.

"That's a lot of what we are: a teacher for hire," he says. "You come to us, and we help you get started in the hobby, and as you grow in it and have questions and problems, we help you solve them and go on to higher things."

To the King Group, the New York office-products store, "customer service now means not only personal attention but doing it right the first time," says Gillon, the CEO.

Demonstrating appreciation is a major element of many successful service formulas. Macon Christian Book Store has each employee write handwritten thank-yous to three customers each week. Each day, owner Childers himself randomly selects three customers and calls them to ask what they thought of the store and its handling of them.

The best way for independents to attract and retain customers is simply to talk with them, something that many big retailers don't have time to do.

"If you don't want to become a dinosaur, you've got to do that," says Wing, the Seattle-based consultant. "And the most important customer who comes into your store is the person who doesn't buy anything. What is he telling you?

"Walk up to them and say, 'Excuse me, I notice that you come into the store often, but you haven't been purchasing anything lately. Could you please give me a couple of minutes to fill out a survey for a 10 percent discount off your next purchase?' They're going to love that, and you'll get information out of it."

Small retailers, to make the most of the edge they usually have in learning first what customers want, must apply that knowledge quickly and confidently, continually reinventing things about their business.

"Independents can adapt more quickly because they don't have to go through layers of management and procedures to make changes," says Wedeven, the Michigan-based consultant. "And change is what good retailing is all about." NB

To order a reprint of this story, see Page 53. For a fax copy, see Page 6.

Animal Magnetism

Heading out of the parking lot of Pet Habitat, in Turnersville, N.J., shoppers can turn one way toward the nearby Petsmart superstore or the other way toward Wal-Mart just down the road.

But chances are they've already bought everything they need—and had fun doing so—at Pet Habitat.

The 3,600-square-foot store has combined savvy product selection with unique in-house services and has devoted attention to customer needs and plain old good times in a formula that lures shoppers and then turns them into loyal friends. Sales are up 65 percent this year—the store's fourth in business—over last year. What's more, *Pet Product News*, a monthly magazine for pet-store owners that is published in Mission Viejo, Calif., recently named Pet Habitat its Retailer of the Year.

"What we have here is special," says owner Denise Ashcraft, a former nutrition-store manager who already is grappling with the question of how to expand her first retailing venture.

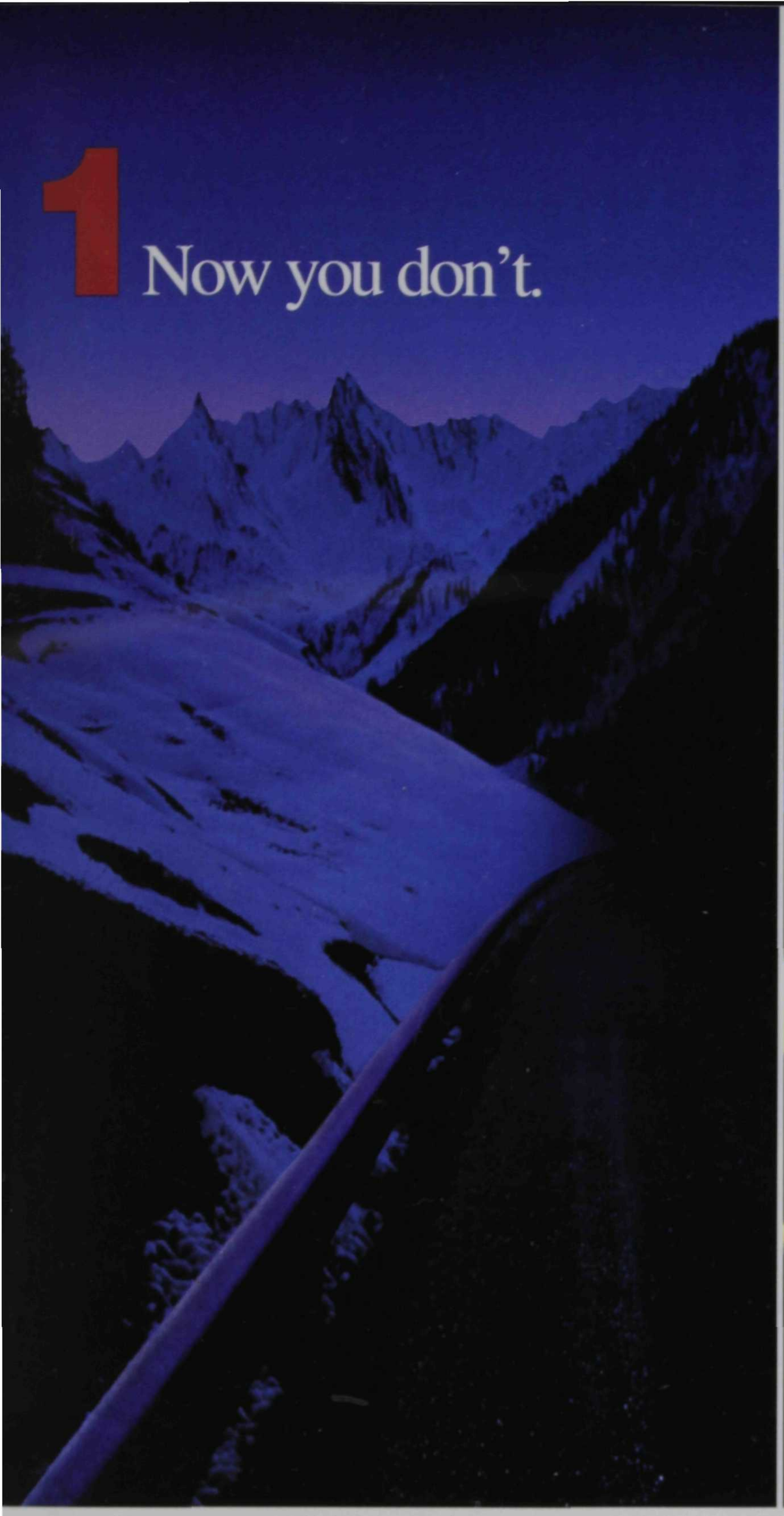
Pet Habitat's food lines are all-natural, higher-priced offerings that give Ashcraft exclusive local availability and an important way to differentiate the store from the discounters down the street.

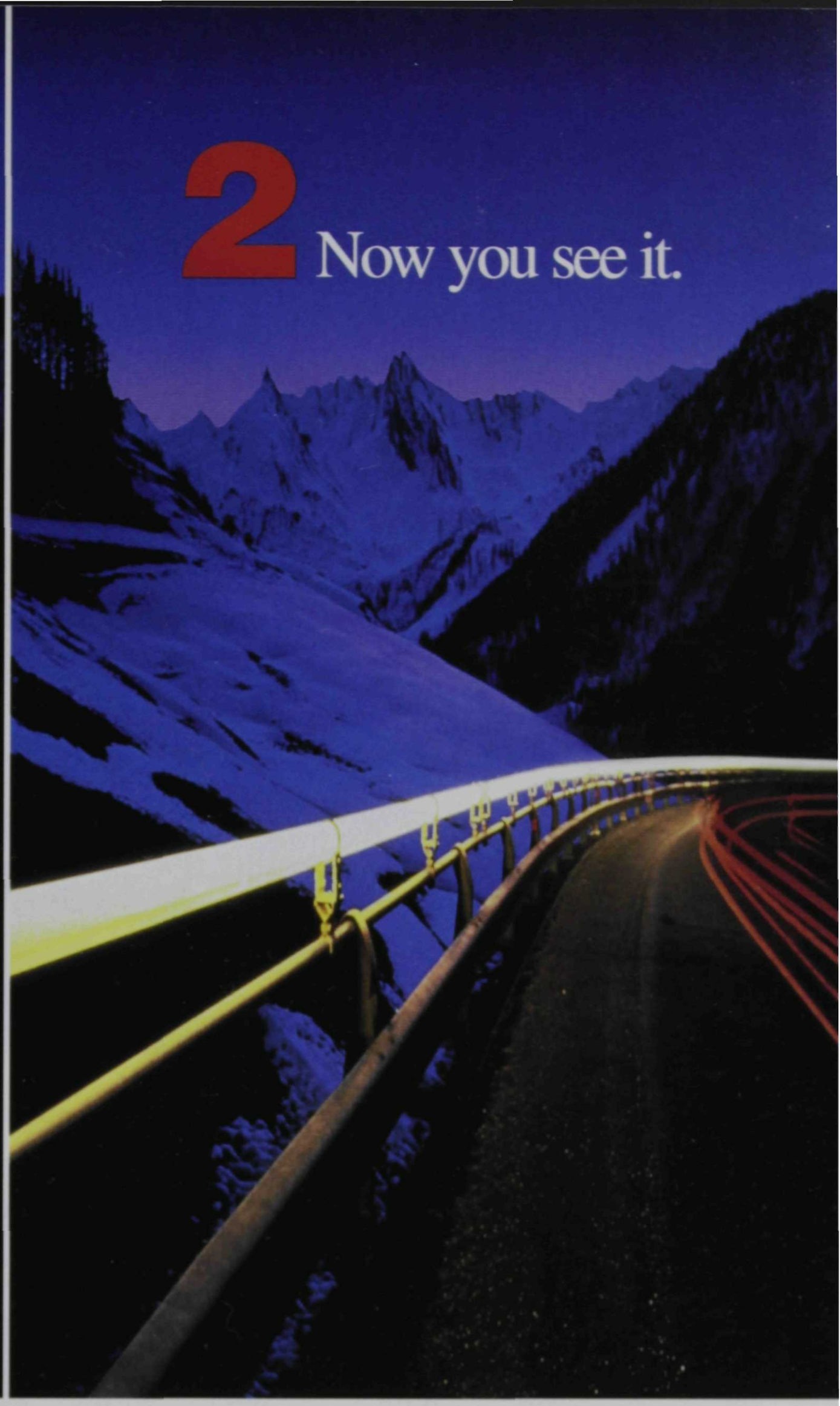
Customers can view CD-ROMs about various dog and cat breeds and then talk with the store's staff about which pet would be best for their family and lifestyle. The store also sports a self-service, fully equipped "doggy wash" and a "birdie circus" where kids can watch exotic birds prance and fluff in an open area secured by a clear vinyl fence.

Multiple special events and promotions also keep bringing people to the store. They include a bunny pageant and egg hunt on Easter weekend, the "Hamster 500" race on Memorial Day weekend, a haunted store at Halloween, Santa photos at Christmas, and a Pet Fair in September featuring pet-care seminars, breed-club information, and day-long competitions.

Shoppers who sign up to join Pet Habitat's "club" receive discounts at various purchase levels and mailings about the events. The store even offers a computerized dog-breeder-referral service that actually directs many customers away from Pet Habitat's own stable of animals for sale.

"It's a great loyalty developer," Ashcraft says. "We miss out on selling a dog but get a lifetime of providing them with what they need to care for it."





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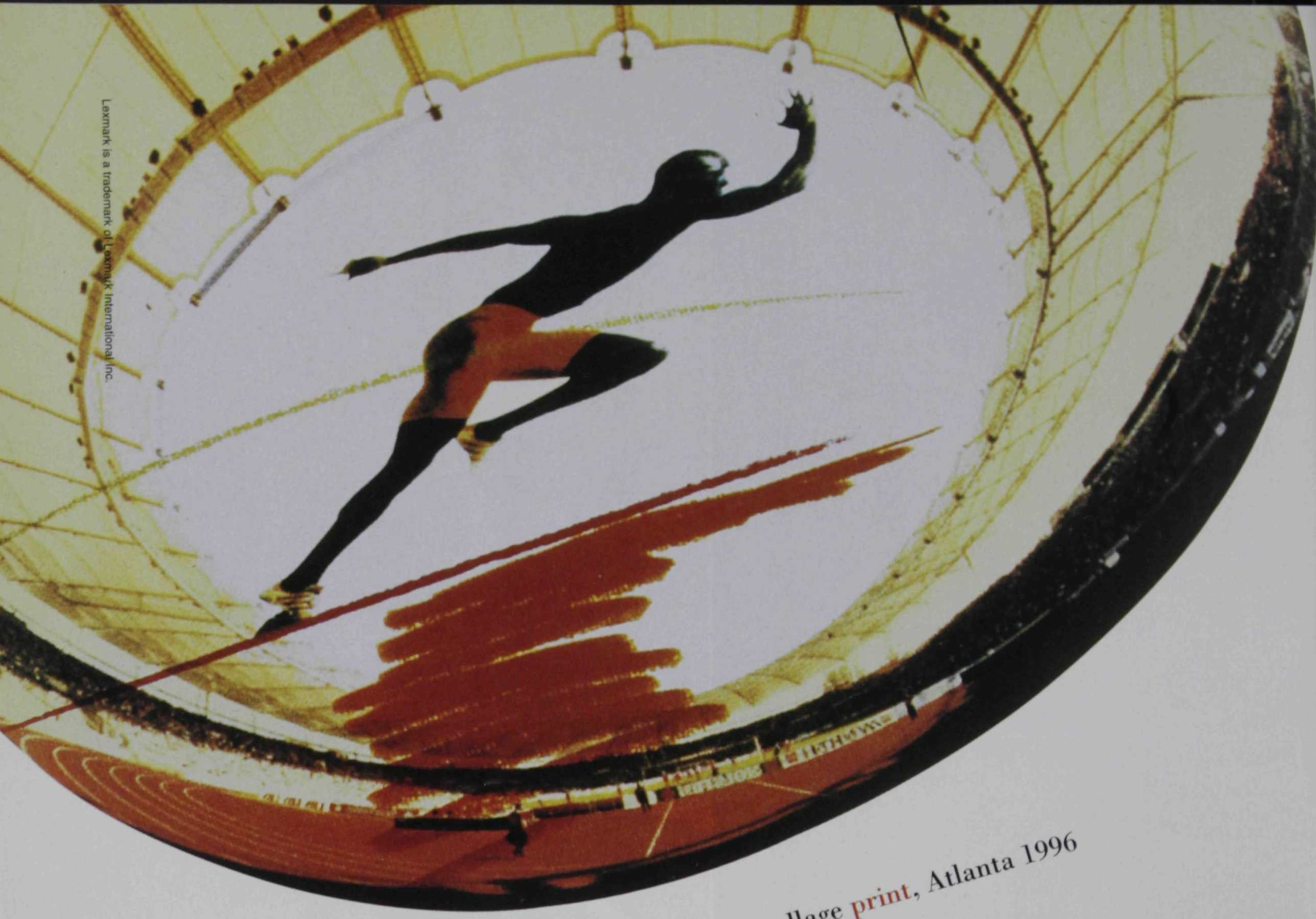


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ECONOMIC DEVELOPMENT

Persuading Firms To Stay In The Fold

As some states focus more on keeping companies than on luring newcomers, they also are working to erase vestiges of hostility to business.

By Robert T. Gray

The expansion plans of Ward Manufacturing Co., in Blossburg, Pa., represented a major economic prize for any state.

The firm was extending its product line of pipe fittings and steel tubing to include components for automobile steering and suspension systems. That growth would mean a $100 million expansion and the addition of 500 jobs.

Pennsylvania's economic-development officials made an all-out effort to convince Ward that its expansion should take place in its home state. They assembled a $5.75 million incentive package for infrastructure at the site, customized job training, and capital funding.

Ward will expand in the Blossburg area in two phases. Ground has been broken for a $35 million facility, with a $65 million project to follow.

In addition to the company-specific assistance, an important factor in that decision was the change in the state's business climate under Gov. Tom Ridge, says Ward's president, Doyne Chartrau. "Gov. Ridge's commitment to a job-friendly economic climate for the state provides international job creators with the incentive to invest in Pennsylvania's work force and encourages companies such as ourselves to grow and maintain a competitive edge," Chartrau says. A major example, he notes, is the Department of Environmental Resources, which "has become much more helpful, acting more as coach and counselor and less as a policeman waving a billy club."

In Michigan, Hess Industries Inc. was considering whether to expand in Niles, Mich., or across the border in Indiana. The company, founded in 1976 by Tony Hess, enjoyed explosive growth in the '90s, and annual sales are now $65 million. It makes specialized machine tools at three locations in Michigan and one in Indiana.

Hess' need for additional buildings, machinery, and equipment led it to explore the potential cost savings of consolidating operations at its Indiana site. But financing, job training, and other assistance offered by the Michigan Economic Growth Authority last year tipped the scales in favor of that state.

Martin Honacker, director of finance for Hess, says the incentives, including a local tax abatement, other tax credits, and job-training assistance, "leveled the play-



PHOTO: ©HANS SCOTT

Tax credits, job training, financing, and other incentives offered by Michigan persuaded Hess Industries to carry out its expansion plans in that state; here, Hess' president, Steve Falk, examines the work in progress.

ing field" relative to the potential savings in Indiana.

For Hess Industries as for Ward Manufacturing, the decision to remain in its home state was influenced by major changes in the business climate. Noting that "Michigan lost a lot of businesses" in the past because of government-imposed costs, Honacker says that several policy changes by the administration of Gov. John Engler, including lower real-estate taxes and workers' compensation costs, "have helped significantly" in turning the situation around.

The Ward and Hess experiences reflect parallel trends under way in economic-development efforts in many regions of the country. One is increased emphasis on retaining existing businesses, long considered a less glamorous aspect of economic development than luring new businesses from out of state or from overseas. The other is the growing recognition by many state governments that they had become hostile to business and needed a course correction.

Miles Freeman, executive director of the National Association of State Development Agencies, based in Washington, D.C., estimates that states in general are now putting more effort into retaining businesses than they are into recruiting out-of-state firms.

Jeffrey A. Finkle, executive director of the National Council for Urban Economic Development, also based in Washington, says that approximately 80 to 85 percent of economic-development activity deals with business retention.

In their earliest phase in the 1950s, the most visible economic-development efforts centered on competitive recruiting in other states.

Those efforts peaked during the historic migration of businesses from the Rust Belt—states in the Northeast and Midwest where manufacturing industries such as textiles and steel were in decline—to the Sun Belt, the fast-growing Southern and Western states.

Population trends, shifting markets, and transportation improvements that came with construction of the interstate highway system were all factors in that movement. But perhaps most important was the extent to which Sun Belt states were viewed as more friendly to business in terms of taxes, regulation, labor costs, and willingness to provide roads and other infrastructure.

Conversely, in states that were seeing companies depart, tax and regulatory burdens, deteriorating infrastructure, and lack of financial assistance became matters of increasing concern.



Pennsylvania Gov. Tom Ridge, joined by officials of Ward Manufacturing, lifted the center shovel at the groundbreaking for the company's new facilities. Helping companies stay and grow in the state is a major focus of Ridge's business-friendly administration.

Declining job opportunities eventually became a major political issue in these states. In recent years, voters in states such as Massachusetts, Pennsylvania, Indiana, Ohio, and Michigan have elected new governors—most of them Republican—who pledged to improve the business climate.

Ward Manufacturing's decision to remain in Pennsylvania was an indication of the success of economic-development efforts in that state.

One of Republican Gov. Ridge's first actions after taking office in 1995 was the appointment of the Keystone Committee, a panel of business and academic leaders and policy experts assigned to recommend ways to make state government more "user-friendly."

While Ridge cited four broad areas—economic development, government reform, education, and welfare—the committee said that retention and expansion of existing businesses, along with attracting new ones, should be the new administration's top priority.

In a report that had relevance for other states where businesses have moved out in protest over state policies, the panel:

- Warned that Pennsylvania could no longer afford to be viewed as a difficult place to do business.
- Said that economic policies and the state's organizational structure must provide the "user-friendly" consistency that job creators need to make sound, long-term investments.
- Emphasized that the new climate needed to be not only attractive to businesses but also permanent if it was to foster the greatest economic development.

In summing up its report, the committee stated: "Economic development should be the central theme supporting efforts to reform all areas of government. The clear and determined focus of the Ridge administration must be on job retention, expansion, and attraction, in that order."

Responding to the recommendations, Ridge helped secure legislative approval of $286 million in tax relief for business, the second-largest such reduction in the state's history.

Ridge points out that he also eliminated a "confrontational" environmental agency, replacing it with one that "emphasizes cooperation" in addressing anti-pollution efforts, and that his programs will save employers more than $250 million a year in workers' compensation costs.

Ridge followed up with proposals for further cuts in taxes and workers' compensation costs and for improved job training. He also launched what he describes as "a comprehensive regulatory-reform initiative to ensure that all state government is job-friendly."

This pattern of policy changes aimed at helping established businesses remain and prosper is evident in other states that had watched companies depart because of what the businesses saw as a hostile climate.

California is a paradoxical member of this group because it was long the solid Western anchor of the Sun Belt, with explosive economic and population growth and an apparently boundless future.

But the boom times resulted in substantial tax and spending increases under liberal governors and legislatures, and business regulation was tightened significantly.

The state went into deep recession when defense cutbacks in the early '90s hammered its key aerospace industry and cost it many military installations that had been important to local economies. As business conditions worsened, many companies fled when they decided they could no longer cope with the tax and regulatory burdens. Western and Southwestern states were among the principal beneficiaries of that migration.

Gov. Pete Wilson, in a frank appraisal in his State of the State Address this year, declared: "We make it easy for other states to steal our jobs. California continues to tax both job creators and individual workers far more heavily than most every other state. If we continue to do so, we risk losing the entrepreneurs and innovators who give California our competitive edge."

A major part of the effort in Michigan to keep jobs in the state was a series of tax cuts totaling $3.5 billion.

To ease governmental burdens that make businesses feel unwelcome in their home state, Wilson, a Republican, has won many legislative changes and is pressing for a wide range of further reductions in taxes and regulations.

In addition to Wilson's campaign to improve the business climate, California also assists local governments in retaining, expanding, and attracting businesses.

Among the programs is Team California, a statewide network of economic-development professionals from the public and private sectors. The team collaborates on development projects, shares information on successful techniques, and serves as a communications link on public-policy issues affecting business in California.

Noting steps already taken to ease tax and regulatory roadblocks to business expansion, Julie Meier Wright, California's secretary of trade and commerce, says, "We launched Team California to market a newly attractive state."

Michigan also sees its changes in basic state policies as important assets for economic development. Doug Rothwell, chief executive officer and director of the Michigan Jobs Commission, which has been given the status of a department of state government, says that in the past, "businesses were leaving the state in droves." Engler became governor, Rothwell says, with a commitment to make business retention and expansion the No. 1 priority in economic development.

A key element in the effort to keep jobs in



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the state was a series of 21 tax reductions from 1992 to 1996 that totaled $3.5 billion. In addition to reducing the real-estate tax from 30 percent above the national average to 9 percent below, Michigan has eliminated its inheritance tax, phased out a tax on savings on investment, cut its income tax, raised the personal exemption, reduced unemployment-insurance taxes, and cut the Single Business Tax (SBT).

The tax was adopted in 1975 to replace seven levies, which included business-income and inventory taxes and a franchise fee. The SBT base is value added during the production process. Total compensation, profits, net interest, and depreciation are used to measure the tax base. Purchases of real and personal property are deducted. The rate is 2.3 percent.

State officials say that nine revisions of the tax under the Engler administration have saved business nearly $600 million. The Engler reforms include a reduction in the taxable base and the rate and a broadening of relief for small businesses.

Rothwell points out that a major element of the retention program is direct contact with businesses. Account managers for the Jobs Commission visit a total of 3,000 firms each year to determine what the state government can do to ease expansion or to help solve problems that might keep a company from remaining in Michigan.

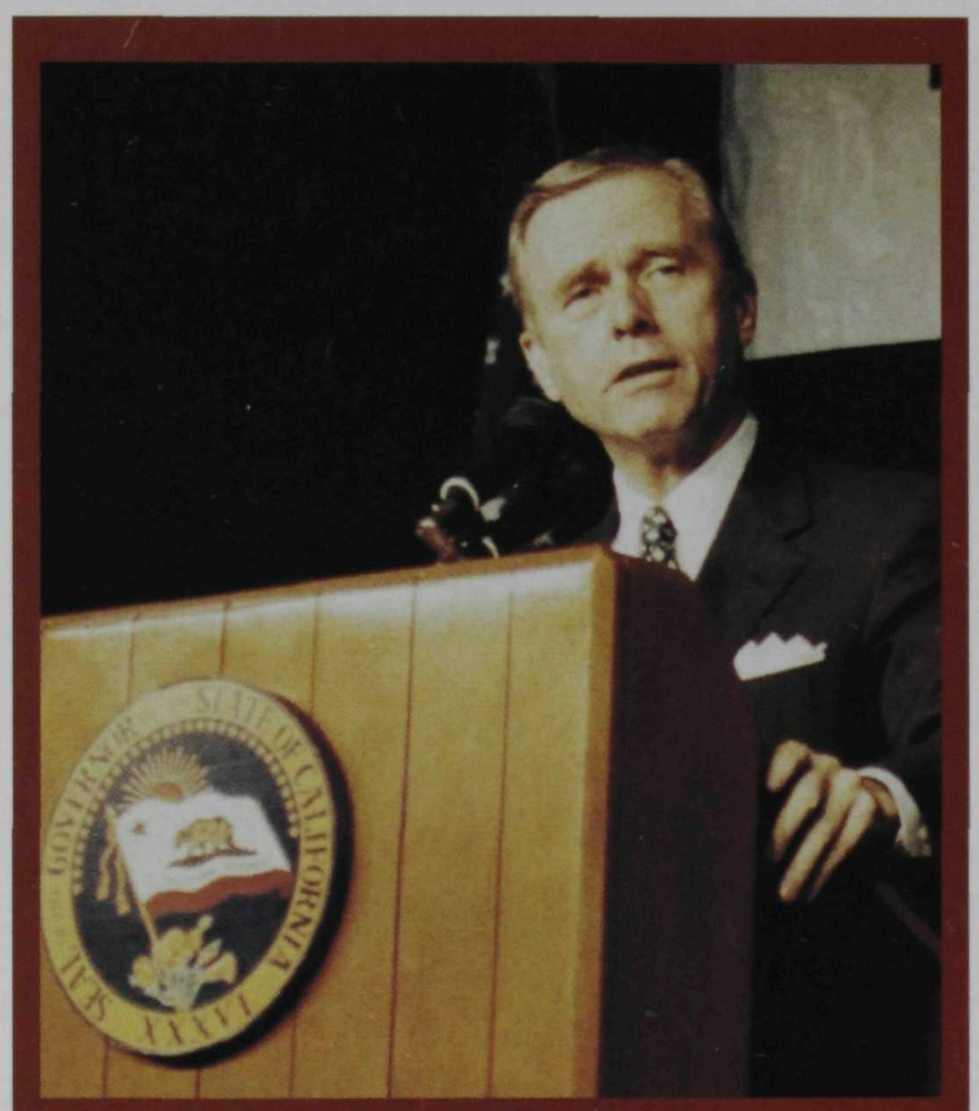
"The account managers are not there to sell programs but as consultants learning about companies' plans and ready to provide advice," Rothwell says.

While states such as Michigan have had to struggle to recover from policies blamed for driving out businesses, some states have not had to go through that trauma.

In Texas, for example, Jack Campbell, state director of business development, says, "We mostly don't lose that many companies that just pack up and leave."

When they do so, he notes, "it's usually for reasons that can't be changed through government incentives. Maybe a company's markets have moved; it might want better access to raw materials. Maybe the owner wants to ski in Colorado."

The state is by no means oblivious, however, to the need for encouraging businesses to stay and prosper there, and it does maintain an array of financial, technical, training, infrastructure, and other incentives. At the same time, most of the decisions on how to help businesses are made and implemented at the local level.



To improve California's business climate, Gov. Pete Wilson is pressing for further easing of taxes and regulations.

When retention or attraction of a company is at stake, Campbell says, "a local group does its thing. There are not a lot of direct state incentives."

The Texas Leverage Fund Program, which provides financing to help with business retention or attraction, is operated through communities that have elected to levy an economic-development sales tax. Communities that have done so apply for funding through local entities called industrial-development corporations.

Although Pennsylvania, Michigan, California, and other states that have had heavy job losses are working to retain businesses through weapons ranging from policy changes to targeted incentives, many economic-development professionals say the most potent factor in retaining and expanding businesses is a company's original choice of location.

"Jobs tend to stay in a state," says Freeman of the National Association of State Development Agencies. "Growth opportunities are often more likely and more easily achieved where a company has been doing business."

Finkle of the National Council for Urban Economic Development agrees. "Most businesses don't move," he says. "Ninety percent of them are locked into the location they chose originally for proximity to customers, the availability of key personnel, or for other reasons that made it the most strategic location. They can't or won't move."

The most visible practitioners in economic development might be the "big-game hunters" who gain attention from time to time with announcements that their states have been chosen for billion-dollar expansions by major domestic or international companies, Finkle says. But most of the real work of professionals in the field, he notes, consists of "one small deal at a time," helping companies meet needs such as more capital, more technology, or more job training.

Companies do sometimes conclude that it's time to move, but the two economic-development experts say that the reasons vary from company to company. There are, however, business fundamentals that apply across the board when states set policies that will help determine whether companies will stay and prosper, or leave, or fail.

In describing California entrepreneurs whose problems have been compounded by state actions in recent decades, Wilson said the "risk-takers who create jobs are fully prepared to face the uncertainties of the marketplace and even [natural disasters]."

But, he added, "they can't survive ... costly and time-consuming overregulation" or excessively high taxes.

Many other states are operating from that perspective as they develop strategies to keep businesses from bailing out and moving to states without such problems. NB

Making A Move?

A company weighing the pros and cons of moving within a state or relocating to another state can obtain extensive information and, in most cases, assistance from economic-development agencies in its home state as well as in other states.

Local, regional, and state agencies will often compete to retain or attract a company. Chambers of commerce can be good starting points. If they don't run their own development programs, they can put companies in touch with sources that can help.

You can reach more than 300 state and local chambers through the U.S. Chamber's new ChamberMall on the World Wide Web of the Internet. The address is *http://www.uschamber.org/chamber/mall.*

State economic-development efforts are usually handled by the state's commerce department. Many states also have Internet home pages that provide detailed listings of available assistance and where to find it. Many of those pages can be accessed through *http://www.state.us*, with *state* being the two-letter postal designation.

TRENDS

Scam Artists Never Sleep

Here are some schemes that small-business people could encounter—along with ways to recognize and thwart them.

By Hal Morris



ILLUSTRATIONS: MICHAEL ROOK

The gruff-voiced man at the other end of the phone line sounded like a truck driver. "I've been in your shop," he volunteered to Clyde G. Moon, president of Baraboo Tent & Awning Inc., in Baraboo, Wis. "I'm in Seattle now, at a warehouse." He said his truck was empty, and he had to go back to Wisconsin.

Then the caller laid out a mouthwatering deal. The story, as Moon recalls it, was that "a retired millionaire had unwanted yards and yards of fabric and several sewing machines in storage, and all I had to do was to pay the dunnage [freight] fee and all would be delivered to my shop four days later." Moon's 30-employee firm manufactures custom awnings, fabric signs, and boat covers.

"The way it was described, it sounded like over a half-million dollars worth of stuff," Moon continues. "I said, 'Wow.' Then I wired to Jim Cody, the name the caller used, a $950 fee."

At the planned delivery time, Moon was geared up with a rented forklift and several extra hands for the major unloading. He waited. And waited.

Moon is still waiting. He had been taken for an 18-wheeler ride by a fast-talking con artist.

"We're really cautious around here now," says Moon. "And we get everything in writing."

Swindlers, as active as ever, continue to pick the pockets of busy, hard-working business people. There's a chance that one of the following schemes will be heading your way.

Out Of Africa

Would you turn down a proposition to grab a chunk of $28.2 million in exchange for some simple paperwork? Al Adams rejected the offer, but others have been taken in.

Adams, president of Adams Transfer and Storage, in Atlanta, received two pitch letters from someone claiming to be an official of the "Federal Ministry of Transport and Aviation Headquarters," in Lagos, Nigeria. The offers, similar to ones received by many other firms, proposed to give 30 to 40 percent of millions of dollars for help in transferring funds out of Nigeria.

"The letter asked for two blank copies of my company's letterhead; an invoice duly signed and stamped; name, address, and fax number of my bank, and bank account number; plus my private fax and telephone numbers," recalls Adams, whose firm employs 40.

That's also the usual method of operation of someone claiming to be a representative of a fictitious Nigerian government-run corporation, often identified as the "Nigerian National Petroleum Co."

Aware of the questionable nature of the solicitation, Adams didn't bite at one of the biggest scams sweeping the U.S. It was first noticed a decade ago, and the pickings apparently are so good that activity has soared in recent months.

"I've collected enough Nigerian swindle letters here to sink a battleship," says Bob Hampton, president of the Better Business Bureau of Wisconsin, based in Milwaukee. "What they seek is 'a good friend' to help get money out of Nigeria."

Once the target indicates a willingness to participate in the transfer, a later communication asks for a fee or commission to cover the expense of moving money to the target's bank accounts. After paying the fee, the target never hears from the swindlers again. Authorities say that one California business lost a $515,000 "fee."

Don't Bank On It

Popping up around the country, touting "financial services" to small businesses, are operations that use bank-like words in their titles. The words include bancorp, commonly used by legitimate bank holding companies. Some operations even use names the same as or very similar to those of actual banking operations. In California, for example, an unlicensed "Western State Bank" opened three Los Angeles-area locations. This got officers at the genuine Western State Bank, which operates in

Hal Morris is a free-lance writer in Las Vegas.

the same area, upset, and triggered a cease-and-desist order to the nonbank operation from the state superintendent of banks.

In order to use bank, bancorp, or trust in its name, a financial-services institution must receive a state or federal charter.

Other unlicensed banking operations have surfaced in recent months in New York, Florida, Oklahoma, Michigan, Delaware, and Texas, says a spokesman for the Comptroller of the Currency, a bureau of the Treasury Department. The unlicensed banks usually keep a low profile, with no bold identification on buildings or offices. There's no walk-in traffic, and they do not take deposits. They are primarily in the business of facilitating financial transactions for a fee.

For example, an unlicensed operation may collect an upfront fee, sometimes in five figures, to issue a loan-commitment letter that the recipient can then use as leverage at a legitimate bank to obtain additional loan commitments. The operations may also issue—again for a fee—worthless letters of credit or sell fake bank documents, such as cashier's checks or certificates of deposit, that are used to inflate balance sheets.

Once one of these operations comes to the attention of the currency comptroller's office, the information is turned over to the Justice Department for investigation and possible legal action. It's not uncommon for the people behind the sham banks to escape prosecution, says a comptroller's office investigator. For one thing, it's often difficult to get victims to cooperate in investigations, and the Justice Department will prosecute only if victims have lost more than a certain amount of money.

The comptroller's office issues warnings to state banking authorities and to bank executives nationwide whenever it learns of an unlicensed operation.

Busting Out All Over

Millions of dollars will be lost this year by small businesses targeted by so-called bust-out swindlers, who order merchandise on credit, then never pay the bills. The culprits make their money by reselling the acquired goods. "It's in a general upward trend," cautions Robert Lawson, director of the loss-prevention department at the National Association of Credit Management, in Columbia, Md.

Hot spots are Southern California, south Florida, and the New York City area, he adds. The hardest-hit businesses are those in the computer and consumer-electronics fields.

To give the illusion of creditworthiness, the bust-out swindlers sometimes complete a small transaction with a business. That gives them credibility. Then they return for a larger order.

Problems can be avoided by checking out new customers for credit worthiness and contacting references, says Lawson.

Fax And Fiction

Beware of faxed chain letters touting an "awesome" business opportunity that promises a "solid five-figure income in just five weeks." The pitch urges recipients to recruit, within a week and via fax, five "sponsors," who in turn would each recruit five more sponsors, and so on. Each participant pays a fee that is to be divided among those who came before.

One such letter, to get the ball rolling, calls for the recipient to make a "one-time investment" of $100 to receive 500 randomly selected fax numbers of other "opportunity seekers." The instructions call for the recipient's check to be taped to the top half of the pitch letter and faxed to a California number. A variation that has the lure "Would you like your fax machine to make a million dollars?" asks that a $100 check be faxed to a number in British Columbia.

Faxed solicitation letters not only are faster than regular mail but also skirt potential mail-fraud problems with postal inspectors. Banks generally do not honor checks with facsimile signatures, but scam artists can use computers and high-quality laser printers to duplicate checks and signers' names, then pilfer accounts.

How Not To Get Taken

Protect yourself from scam artists by confirming that the firms they claim to represent exist and that the individuals are in fact representatives of those firms. Remember that anyone can print business cards and invoices with deceptive or nonexistent company names. The absence of a telephone number on printed material should sound alarms.

Check out unknown contacts through your local Better Business Bureau, the regional postal inspector, law-enforcement agencies, trade associations, or your state attorney general's office or department of consumer and business services. Verify credit and bank references of new customers before merchandise leaves the premises.

If an invoice or a solicitation disguised as an invoice arrives by second-class or bulk mail, it's a warning signal. Legitimate firms mail bills first-class. Establish effective internal controls for payment of invoices, no matter how trivial. Verify all invoices with the person who gave written or oral authorization for the purchase.

While it's not possible to eliminate the scams, it is possible to thwart the scam artists. NB

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MANAGING

Consultants To The Rescue

The growing ranks of these skilled professionals can help small firms solve financial, management, and marketing problems.

By Bruce W. Fraser

Paul G. Stappas used to run his own business. But for nearly 20 years, he has helped others run theirs. As a small-business planner with the Heritage Financial Group in Somerset, N.J., Stappas has stepped in as a temporary chief financial officer for such diverse businesses as professional-service firms, small manufacturers, and retailers.

Stappas, 53, knows firsthand the pitfalls that small companies can encounter. Years ago he ran a small manufacturing firm that eventually failed because money became tight and he could no longer obtain financing. Today, Stappas is a CFO for hire, just one of the rapidly expanding number of consultants who make it their business to aid small companies.

In fact, revenues from management consulting work done for large as well as small U.S. businesses have more than quadrupled over the past decade, from approximately $4 billion in 1985 to an estimated $18 billion in 1995, according to Kennedy Publications, publisher of *Consultants News*, an industry newsletter in Fitzwilliam, N.H.

Thousands of middle managers cut loose from large corporations in recent years have swelled the ranks of consultants now available to small firms.

When do you need a consultant? Jan B. King, owner of Merritt Publishing, in Santa Monica, Calif., and author of *Business Plans to Game Plans: A Practical System for Turning Strategies Into Action*, identifies the four common situations requiring outside help:

- You need a high level of expertise, but your company cannot afford to pay an employee who has such knowledge and skills.
- Your needs, generated by growth or external market forces, are only temporary.
- Problems have become so acute that they require immediate response.
- Problems are of such a broad institutional nature that they defy internal response.



PHOTO: ©TOM SOBOLIK—BLACK STAR

By getting *small-business owners to take a realistic look at their circumstances, consultant Paul G. Stappas helps them avoid pitfalls.*

The most popular management consulting services currently offered industrywide, according to Kennedy Publications, include strategy and long-range planning, management development and training, organization development, profit management, and feasibility studies.

Regardless of why your firm may need a consultant, it doesn't have to be large to afford one. Fees vary widely, so don't be reluctant to nail down specifics before engaging a consultant. Consultants may seek various methods of compensation—by the hour, by the day, or by the project. Typical per-diem fees range from $500 to more than $5,000.

Some types of expertise clearly are priced higher than others. Retaining a turnaround manager or a crisis intermediary, for example, is apt to cost more than hiring, say, a benefits consultant.

Beware of the consultant who declines to provide at least an average daily rate, cautions James H. Kennedy, president of Kennedy Publications. "Don't worry if it's high," he says. "They don't work every day, and it's a pressure job. Look at value, not price."

And be sure to get it in writing. Ask for and sign a contract that specifies the terms of the project, how long it will last, and how much you'll be charged.

Following are some examples of how consultants have helped small businesses solve their problems:

For Better Vision

Former business owner Stappas frequently works with company principals to create what most small firms lack: a business plan. He forces owners to remove their rose-colored glasses and take a hard look at their present circumstances and their plans. He frequently encounters owners who, at least initially, are uncertain that an outsider could help.

"I was skeptical about letting anyone make recommendations about my business," says John Murray, 55, president of a Blairstown, N.J., marketing communications firm that bears his name. "But his initiatives frequently save us $30,000 or more a year."

Frank Dalene, 41, vice president of Telemark Construction Inc., a builder of luxury homes in the Hamptons on New York's Long Island, had a similar reaction. "As a family business, it was difficult to turn over our financial information to an outsider," he says. Since Stappas put together a financial plan for the firm in 1988, Telemark has grown steadily to annual revenues of more than $5 million.

Managers For All Reasons

In addition to financial concerns, it's possible to bring in a consultant who will tackle

Bruce W. Fraser is a business writer in New York City.

any type of management problem. In fact, it's not unusual for companies to find themselves short on talent just when they need it most. Firms like the Pickwick Group, in Wellesley, Mass., supply all manner of interim—and sometimes permanent—professionals and consultants.

Says Pickwick Group's president, Cecile Klavens: "A small business will call us and describe a problem. It may need a new accounting system, a marketing program, or someone to actually run the company. Or it could be [a replacement for] a key executive who is ill, on maternity leave, or [on] sabbatical. We try to come up with the best match possible."

Klavens, 57, launched her boutique firm nine years ago. Today, drawing from a database of 7,000 professionals in diverse fields such as human resources, finance, marketing, and information systems, Pickwick services a roster of 500 clients, ranging from one-person start-ups to giants like Digital Equipment Corp.

The focus is on temporary or project-bound work, in contrast to the typical executive-search firm or employment agency that specializes in full-time placements.



PHOTO: T. MICHAEL KEZA

"Customers want *useful information in artful nibbles," says Michelle Poskaitis, a writer and marketing consultant in Falls Church, Va.*

Informal Networking

You may manage a $1 million company but you're at a loss when it comes to mixing and mingling at a reception or a conference. Does informal networking matter to your business? You bet, and sometimes a consultant can show you how to do it effectively.

"Networking is a crucial business skill not taught in business schools," says Deborah Varallo, who owns a public-relations firm in Nashville, Tenn. Varallo, 43, who built her business through networking, now consults with other business owners, showing them how to network to their advantage.

"More people are making a concerted effort to use networking to get ahead. Those who don't network will see their business suffer," says Varallo.

But chatting it up with strangers—and influential ones at that—can be intimidating and baffling to some. "Most people are generally shy in crowds or even in small groups," says Kenneth G. Diehl Jr., 43, president of the Society for Marketing Professional Services, in Alexandria, Va. The organization offers networking training sessions at its local chapters. "Networking gives you reason to overcome your shyness," Diehl says.

Cheryl Forbes, manager of small-business programs for the Nashville Area Chamber of Commerce, says: "People assume that when you walk into a room, things just happen. Not so." She points out that the local chamber offers programs presented by consultants who focus on the art of networking.

Basics such as how to fill out a name badge are part of the process. "People write down their name on the badge—John Smith—but fail to write their business connection—Smith Plumbing," observes Forbes. "Without that business identification, John Smith may have lost business without even realizing it."

Custom Marketing

Sales gimmicks, jingles, slogans—the marketplace is flooded with advertising. How can a small business get its message across without spending a fortune?

Consultants like Michelle Poskaitis can help. "Customers want useful information in artful nibbles," says Poskaitis, 35, a writer and marketing media consultant in Falls Church, Va. She specializes in crafting effective marketing messages and developing affordable marketing communications tools for small businesses, home-based entrepreneurs, and trade associations.

When businesses want to maximize resources, Poskaitis counsels them on how custom newsletters can be effective tools to establish credibility. She also will craft a newsletter for them.

"Adding a custom newsletter to your marketing mix can generate new and repeat business quickly and inexpensively," she says. The same newsletter sent to clients, prospects, and the media serves as a customer-service and marketing tool and builds name recognition in the market.

This strategy paid off for Stephen Hines, 53, chief executive of Marketing Resource Management, a training and consulting firm in Aldie, Va. His two-page, quarterly newsletter, *Meeting Trends*, was sent to 400 qualified prospects in March 1995, and it quickly captured the attention of industry trade publications. Subsequent interviews led to full-page feature articles, reinforcing

Hunting For A Consultant?

Here are some helpful tips on how to pick the right consultant:

Use the directories available, especially from the Institute of Management Consultants, which maintains a free referral service listing certified management consultants. Contact the institute at 521 Fifth Ave., New York, N.Y. 10175; (212) 697-8262. Institute members subscribe to a code of ethics.

The Association of Management Consulting Firms, a sister organization of the institute, also provides a free referral service. It consists of a database categorized by industry and specialty to assist businesses and organizations of all sizes in selecting a consulting firm. The association has the same address as the institute; call (212) 455-8231.

Two useful references, produced by Kennedy Publications (1-800-531-0007), are the *Directory of Management Consultants*, $99.95 plus $7 postage and handling, and the *Directory of Executive Temporary Placement Firms*, $24.95 plus $4 postage and handling.

Hines' position as an expert and generating inquiries from readers whom he later converted to clients.

"It's a worthwhile investment," says Hines. "Within 60 days, we booked speaking engagements worth $20,000, including a keynote, and gained significant name recognition."

Generating New Business

Who likes to make cold calls? Nobody. And yet they are often crucial to gaining business. If you are having trouble corralling new clients and dislike making cold calls—as most small-business owners do—consultants are available to take that drudgery off your hands.

Diane M. Wildowsky heads Cold Call Enterprises, in New York City. Besides generating new business leads for public-relations, advertising, and design firms through her platoon of 10 telemarketers, she consults with clients, helping them develop sales scripts and letters of introduction to spark the attention of prospects.

Wildowsky also does one-on-one role-playing with clients. "Their biggest problem is learning how to overcome objections," says the 41-year-old former secretary, who started consulting in this field in 1991.

Another aspect of her business is teaching telephone etiquette. "My clients are in service businesses," says Wildowsky, "and it's extremely important that their phones are answered promptly, professionally, and that callers are directed to the proper people immediately."



PHOTO: ©DAN LOFTIN—BLACK STAR

Networking *is crucial, says Deborah Varallo, whose public-relations firm helps clients like Joseph D. Bankemper, president of Express Courier.*

When hiring a telemarketing consultant, it's recommended that you interview prospects by phone first before an initial meeting, since telephone manners are crucial to a caller's effectiveness.

"One of the biggest mistakes people make is interviewing candidates in person instead of by phone to determine if they're believable and honest," says Nadji Tyerani, publisher and editor in chief of *Telemarketing* magazine. (The magazine is headquartered at One Technology Plaza, Norwalk, Conn. 06854; a one-year subscription is $49. For information, call 203-852-6800).

There are thousands of consultants eager to help small-business owners solve—or avert—problems. Perhaps you would benefit from an annual management audit, sort of an annual physical exam for your business. Or perhaps you need help getting your skyrocketing employee-benefit costs under control.

Whatever your need, it's usually possible to find affordable help. But as with any investment or any relationship, you must choose wisely. NB

To order a reprint of this story, see Page 53. For a fax copy, see Page 6.

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ENTERPRISE

A Blue-Chip Shot Is Well Worth It

Past national honorees of the Blue Chip Enterprise Initiative have a message for small firms that may be hesitant to enter the competition: Just do it.

By Sharon Nelton

If you find yourself reluctant to enter a business competition like the 1997 Blue Chip Enterprise Initiative, maybe it's time to reconsider.

Yes, it takes time to fill out the forms. And besides, you don't really need the recognition—you know what you've accomplished. These are some of the excuses business owners give for not entering the Blue Chip awards program. But past national Blue Chip honorees urge you to put the excuses aside and apply. The deadline for the seventh annual Blue Chip program is Oct. 25.

"Any company that's got a story to tell owes it to its employees to enter the competition," says G. Rives Neblett, chairman of the board and CEO of Shelby Die Casting Co., in Shelby, Miss.

Neblett's company was named one of four national honorees in 1993 when Neblett instituted a Total Quality Management program that helped turn the unprofitable company around. When employees "have worked hard to make a significant change in a business," says Neblett, they deserve the recognition that an award like the Blue Chip honor can bestow.

The Blue Chip Enterprise Initiative recognizes small businesses that have overcome adversity and emerged stronger. The program is sponsored by the Massachusetts Mutual Life Insurance Co. (widely known as MassMutual — the Blue Chip Company), the U.S. Chamber of Commerce, and *Nation's Business* magazine.

As many as 200 small companies are selected each year as state or regional Blue Chip Enterprises. The four most exemplary companies, to be determined by an independent national panel of judges, will be honored as national Blue Chip Enterprises at ceremonies in Washington, D.C., in February and will be profiled in the April 1997 issue of *Nation's Business.* (The 1996 national Blue Chip companies were profiled in "When The Going Gets Tough . . ." this past April.)

In addition, about 50 of the most outstanding Blue Chip companies will be featured on "First Business," the small-business television news program shown on weekday mornings and produced by the U.S. Chamber and MassMutual. The "First Business" segments will be collected in a three-cassette video library, and the case histories of all the 1997 honorees will be published in a book. All designees are honored at regional ceremonies.

Any for-profit company that has been in business at least three years, employs five to 300 people, and has overcome significant challenges is eligible. Application information can be found in the advertising insert following this story and can also be obtained from many state and local chambers of commerce or from MassMutual associates around the country. You may also call 1-800-FOR-BCEI (1-800-367-2234).



PHOTO: ©SCOTT GOLDSMITH

New customers *came their way when their company, Touchstone Research Laboratory, was named a Blue Chip Enterprise, say Libby Kraftician and Brian Joseph.*

Curious about how some of the companies have fared since being designated as Blue Chip honorees, *Nation's Business* talked with Neblett and the owners of three other former national Blue Chip Enterprises. Here are updates on each:

Shelby Die Casting is still at about 90 employees, but Neblett says, "We have continued progressing." The once-unprofitable company is "operating each month in the black" despite the loss of a major contract. Neblett's goal now is to make up for the lost sales and move on from there. But compared with its dismal past, Neblett says, "the Shelby plant's going great."

Touchstone Research Laboratory, Ltd., in Triadelphia, W.Va., is "slowly increasing," says Elizabeth "Libby" Kraftician, co-owner with her husband, Brian E. Joseph. When the company was named a national honoree in 1994, it had 35 employees and annual sales of $2.9 million. It now has 40 employees and expects $3.2 million in sales this year.

But since it received the Blue Chip award, Touchstone, which provides cost-effective research and development services to American manufacturers, has made a breakthrough that may catapult it to higher levels. Joseph invented an instrument to measure the strength and other properties of metal and fiber composites. The device has captured attention in Europe as well as in the United States and marks Touchstone's first export of a manufactured product.

Other products are in the planning stage,



PHOTO: ©BARRY STAVER

Being a Blue Chip honoree *gives a whole company more confidence, says Steven C. Berg, CEO of DeBourgh Manufacturing Co., with employee Paul Sanchez, left.*

and Kraftician expects Touchstone to be headed for expansion within 12 months. She and Joseph have also just been named Small Business Persons of the Year for West Virginia by the U.S. Small Business Administration.

DeBourgh Manufacturing Co., which makes welded-steel athletic and school lockers, is also doing well after a few bumpy years. DeBourgh, in La Junta, Colo., posted sales of $7 million in 1992, the year it was named a national Blue Chip company. "Then we had three lean years where the whole industry was in a kind of recession and there was a serious price war," says Steven C. Berg, DeBourgh's president and CEO.

Annual sales slumped to around $5 million during that period and then returned to $7 million in 1995. Berg expects revenue of around $9 million this year.

A cost-containment strategy helped the company weather the industry downswing, says Berg. "One of our competitors is out of business. Another is weakened financially. We got through the whole ordeal relatively unscathed." Now, Berg says, the company is going to expand beyond anything it has seen before.

Montana Furniture Industries is the new name of a Bozeman, Mont., manufacturer of oak furniture that was called CVR when it was named a Blue Chip company three years ago. "CVR" was a short version of the last name of owners Jim and Stacee Cover.

The company also owns a retail store, Montana Furniture Galleries, which last year moved into new quarters about 3,000 square feet larger than its former 5,000-square-foot space. "It is a two-story work of art, if I do say so myself," says Jim Cover.

The combined companies have grown from $2.1 million in sales and 60 employees in 1992 to nearly $3.5 million in sales and 75 employees in 1995. Three years ago, the Covers' furniture was marketed through 60 dealers; now the company has 120.

Discussions with previous Blue Chip honorees about what the honor meant turned up both expected and unexpected results. Not surprisingly, the companies received a lot of publicity. But "it was beyond my wildest imagination," says Neblett.

Shelby Die Casting was profiled on CBS television and in such newspapers as *The Wall Street Journal*, *The Washington Post*, and *The Christian Science Monitor*. The publicity served as a morale booster for employees, he says, "which in turn continued their momentum to improve."

Neblett joined forces with a 1991 state Blue Chip honoree, George Walker of Delta Wire Corp., in nearby Clarksdale, to organize business leaders and push for state worker-training legislation, which was enacted in 1994.

DeBourgh's Steve Berg says: "I think the recognition has given our entire company more confidence. There are going to be ups and downs in the future, but we all feel better about ourselves, having been recognized this way, and we feel a little more sure of what we're doing."

What the Blue Chip award meant to Touchstone, according to Libby Kraftician, was credibility that led to new customers. "We were sought out rather than having to go out and look for clients," she says.

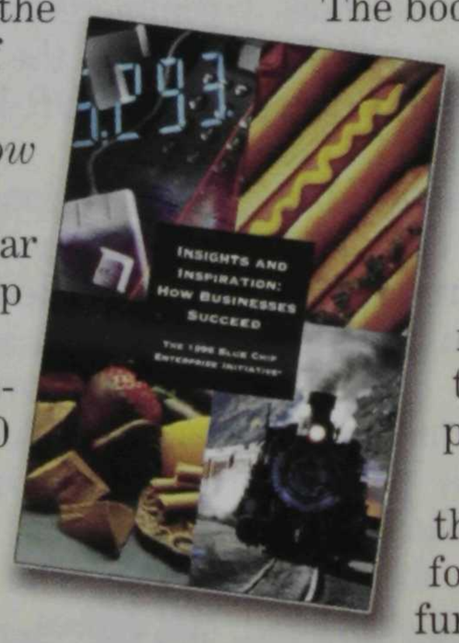
Even if you enter the competition but aren't selected as an honoree, there are rewards. "It's a good and a positive process to go through," says Kraftician. "We found, even in answering questions about our company, that it actually helped us to step back and take a look at things that we really hadn't thought about."

And if your company is designated a Blue Chip enterprise? Well, these honorees think it offers hope to all entrepreneurs. Running your own business can be full of distress and loneliness, says Kraftician. "Blue Chip gets just an enormously wonderful message out to people that success does lie ahead."

Adds Montana Furniture's Jim Cover: "In a world filled with negative reinforcement in business, it sure is nice to have some positive feedback once in a while." NB

Success Stories, In Print And Video

Education is one of the most important goals of the Blue Chip Enterprise Initiative. To help reach that goal, the stories of the 175 honorees of 1996 are told in a new book, *Insights and Inspiration: How Businesses Succeed.*



To be available later this year is a companion 1996 Blue Chip Enterprise Video Library. The three-volume set will provide case histories of about 50 of the top Blue Chip companies from across the country.

The profiles are taken from "First Business," the nationally syndicated small-business morning newscast produced by the U.S. Chamber of Commerce and MassMutual — The Blue Chip Company.

The book and the videos show how entrepreneurs have overcome disasters ranging from an earthquake to bankruptcy as well as the "everyday" calamities of the business owner, including a bank's refusal to renew a line of credit and a threat of being unable to meet a payroll.

To order the book ($8.95) or the videotapes ($20 a volume, $50 for the set of three), or to obtain further information on the Blue Chip Enterprise Initiative, call 1-800-FOR-BCEI (1-800-367-2234).

MassMutual
The Blue Chip Company SM

Dear Business Owners,

As America's business owners, you know that it is not enough simply to be good at what you do. Relentless competition requires you to be more innovative, more flexible – and more willing to take chances.



1996 honorees Rena and Richard Pocrass with David Sams.

MassMutual – The Blue Chip Company – has long believed that the story of business experience in America deserves to be told and deserves a national forum in which to be heard.

At MassMutual we believe that sharing knowledge is the strongest way to build a competitive advantage. That's why six years ago we created the Blue Chip Enterprise Initiative. Since then, more than 4,000 businesses have chosen to participate in this program, and I would encourage you to do the same. We welcome your participation and wish you the best of luck.

David E. Sams, Jr.
President and Chief Operating Officer
MassMutual – The Blue Chip Company

Has your business ever hit rock bottom...

then bounced back?

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Since 1990, hundreds of business owners who have struggled through tough times have been recognized as Blue Chip Enterprise Initiative honorees. This program enables business owners to tell their stories of hardship, disaster, and risk – and of tremendous success.

The Blue Chip Enterprise Initiative Story:

★ **Nomination Requirements: For-profit companies that have overcome business challenges to achieve success, have been in business at least three years, and employ 5 to 300 people.**

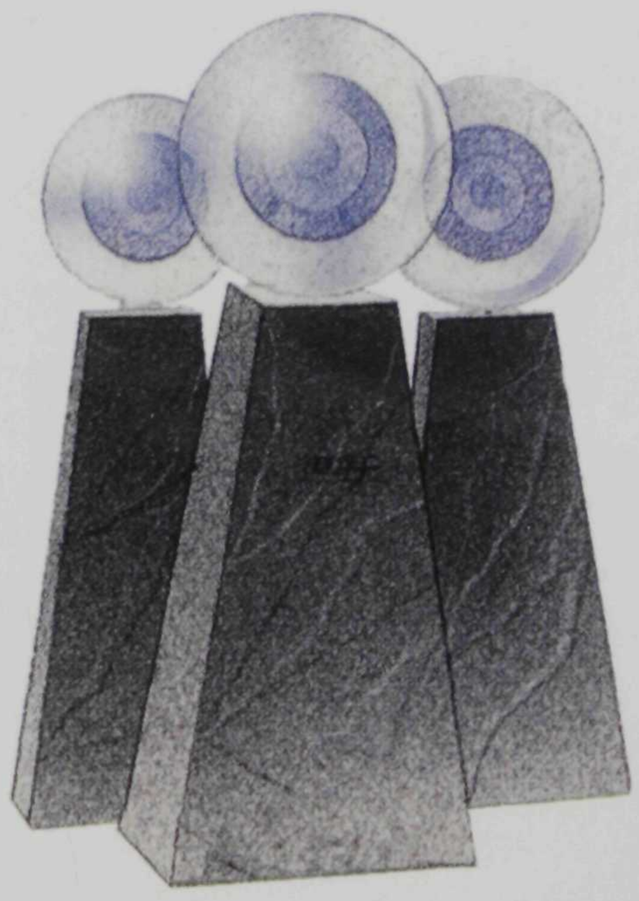
★ **Honoree Selection: Panels of independent judges select up to four "Blue Chip Enterprises" from each state. From these, four businesses are selected for special national recognition in Washington, D.C.**

★ **Information Exchange: Case histories of nearly 1,200 designees help business owners and managers succeed in competitive situations.**

All state and national designees receive extensive publicity, coverage in Nation's Business magazine and a book published about this year's recipients, and a complimentary one-year membership in the U.S. Chamber of Commerce. As an honoree you'll also receive community recognition and networking opportunities for your business.

Apply in 4 easy steps

Everything you need is on the nomination form.



Just for sending your nomination form you'll receive a free softcover book with case studies of the 1997 honorees.

1997 Blue Chip Enterprise Initiative Award — Nomination Form

BUSINESS PROFILE

STEP 1

Name of Owner/Title _____

Company _____

Address _____

City/State/Zip _____

Business Telephone _____ Fax Number _____

Alternative Contact Name/Title _____

Brief Description of Products or Services _____

Type of Business

- ❑ Manufacturing
- ❑ Wholesale
- ❑ Services
- ❑ Real Estate
- ❑ Transportation
- ❑ Retail
- ❑ Construction
- ❑ Finance
- ❑ Communications
- ❑ Professional
- ❑ Other (describe): _____

Annual Sales (optional) _____ Number of Employees _____ Year Established _____

Source of application: ❑ Nation's Business ❑ First Business ❑ MassMutual Agent ❑ Business Colleague ❑ Other

Owner's Signature _____ Date _____

STEP 2

THE STORY OF YOUR CHALLENGES (500 words or less)

Please tell us about the major challenges that threatened your business—or opportunities you created. These may include new competition, loss of major client, changes in the industries/geographic markets you serve, loss of key personnel or capital funding, rapid growth, natural disasters, etc.

STEP 3

THE SUCCESSFUL SOLUTION (500 words or less)

Tell us how you made your business succeed. Please describe the resources and tactics you used to overcome your business challenge(s).

We are looking for insights into the management of your company's resources such as quality assurance, marketing, human resources, community relations, financial management and technology. Also detail the changes in your company's performance as a result of implementing your solution(s).

STEP 4

Please send completed nomination form and additional pages to:

Mail: MassMutual
P.O. Box 2048
Hartford, CT 06101

Fax: 1-860-987-2596

DEADLINE: OCTOBER 25, 1996

We welcome your nomination for the Blue Chip Enterprise Initiative.

For more information, call: **1-800-FOR-BCEI.**

Blue Chip Enterprise Initiative

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A promise I'm forever watching out for you.

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MANAGING

Contests Can Rev Up Employees

Additional incentives for salespeople and other workers can generate excitement and boost profits.

By Howard Scott



Paul Abraham, sales manager of Bernardi Honda-Audi-Volkswagen, in Natick, Mass., swears by contests. "People are much more motivated with an extra reward at stake," says Abraham, whose dealership has 100 employees and sells 3,000 cars a year.

Bernardi spends $25,000 annually on contest awards for its 18-person sales team. There's an extra $150 commission for every car sold during periodic sales held on Saturdays; a weekend getaway for two to Cape Cod for the top salesperson of the week; extra commission for selected cars; and a $500 bonus for the top salesperson each month.

Why does the auto dealer need incentives when the salespeople earn their salaries through commissions? In a word—excitement. Contests motivate the sales staff to go the extra mile for the sale, says Abraham. "We know contests work for us because I see the staffers rev up for contests and I see the improved sales figures."

Dinners For Winners

Contests are by no means new to business. But these days, business owners must be creative in their approaches. According to Alan Weiss, a consultant and principal of Summit Consulting Group, in East Greenwich, R.I., effective contests reward what he calls "incremental business"—that is, extra sales.

The standard cost of a successful contest is 7 to 15 percent of the total additional sales resulting from the competition, according to experts.

LaVigne Press, a $10 million, 85-employee commercial printer in Worcester, Mass., runs a contest that fits Weiss' model of effectiveness. The contest awards a sales staffer one point for each appointment and two points for each new customer. Monthly point winners get a dinner for two at an upscale restaurant. Quarterly, the top staffer wins $100.

Sales manager Ralph Kimball says, "One benefit of this contest is that it keeps the salespeople aware of what the others are doing." This sets up a competitive atmosphere, which helps stimulate sales.

Contests can also be used to motivate employees to set their own sales goals. At Swan Pools, in Rancho Cucamonga, Calif., each of the 10 salespeople declares a monthly target for sales. Owner John Garasich adds up the total, sets a minimum sales quota for the company based on that total, and determines the size of the bonus that will be divided among the salespeople if the company meets its goal.

"What I like about the contest is it gets the salespeople to set their own goals," says Garasich. The bonus money is parceled out lottery-style. Garasich divides the money, typically around $3,000 a month, into sealed envelopes, each representing a pool sale.

The largest sum in an envelope is $500; the smallest, $5. With each sale, the staffer puts his initials on an envelope. At the end of the month, if the company reaches the quota, the salespeople receive the envelopes bearing their initials. That way, the amount of the bonus is a surprise.

Contests can be focused on areas other than sales. John Spomar Jr., president of Norco Cleaners, a Dolton, Ill., dry cleaner with $1 million in annual sales, had a problem with his 23 employees being tardy or absent. He came up with the idea of playing "poker."

Each staffer who arrives on time each day gets to select a card. Those who are late or who don't show up get no card. By Saturday, all those who have been on time for the week have five cards from which to assemble a poker hand. The winner takes home the pot of $20 to $25 supplied by the company.

Says Spomar: "Tardiness has dropped 30 percent, so I guess the possibility of winning at poker jogs them into getting up on time in the morning."

Jeff Thompson, president of Peripheral Outlet, a $50 million, 45-employee merchandiser of computer memory upgrades, believes in frequent and varied contests at his Ada, Okla., company. His offerings include company-set goals of selling a specified amount of product; whoever hits the target first wins $50.

A Sudsy Promise

Thompson also establishes a weekly goal for his team of 14 sales staffers that, if achieved, results in a company-sponsored weekend party.

In addition, contests are conducted in which the employee who contributes the most to gross profit for a particular day wins anywhere from $100 to $500.

Thompson gets into the spirit of the contests. The prize for a recent one was to have him come to each of the sales staffers' houses to wash the evening dishes. "Fortunately, they didn't make the goal," he says. "But all these contests lighten up the mood around here." NB

Howard Scott is a free-lance writer in Pembroke, Mass.

SMALL BUSINESS COMPUTING

Choosing Software For Your Firm

Here's help for fast-growing companies that need to buy a system they can rely on for years.

By Tim McCollum

Michael Kerr needed software, and he needed it fast.

Soon after Kerr joined rapidly growing Boston Optical Fiber Inc. in January as chief financial officer, he discovered that the three-year-old company's management tools were incapable of effectively organizing the company's growing volume of data.

Consequently, executives of the Westborough, Mass., firm, which makes a new type of cable for high-speed computer networks, lacked the tools they needed to develop a business strategy relevant to the company's changing needs and business outlook.

In the back office, meanwhile, a bookkeeper struggled to keep up with payables and receivables using off-the-shelf spreadsheet software.

Kerr knew from experience as CFO at several start-up technology companies that the technical shortcomings, which were becoming increasingly obvious, could mushroom into a financial nightmare if the company didn't put adequate software tools in place rapidly.

Yet he also knew he had to move deliberately, with an eye fixed on long-term needs, in selecting those tools.

He decided to focus first on the accounting system. He knew the company expects this year to quadruple its 1995 sales of plastic optical fiber used in cables. Sales last year totaled $1 million. He knew, therefore, that the company needed an accounting package capable of keeping up with increasing customer orders, billing, inventory, and international transactions.

Kerr also wanted the package to work on the company's computer network so that many departments, not just accounting, could enter and review relevant information.

Thus, he opted to evaluate higher-end accounting programs such as Accpac, from Computer Associates International, in Islandia, N.Y.; Great Plains Accounting, from Great Plains Software Inc., in Fargo, N.D.; and Solomon IV Accounting for Windows, from Solomon Software, in Findlay, Ohio.

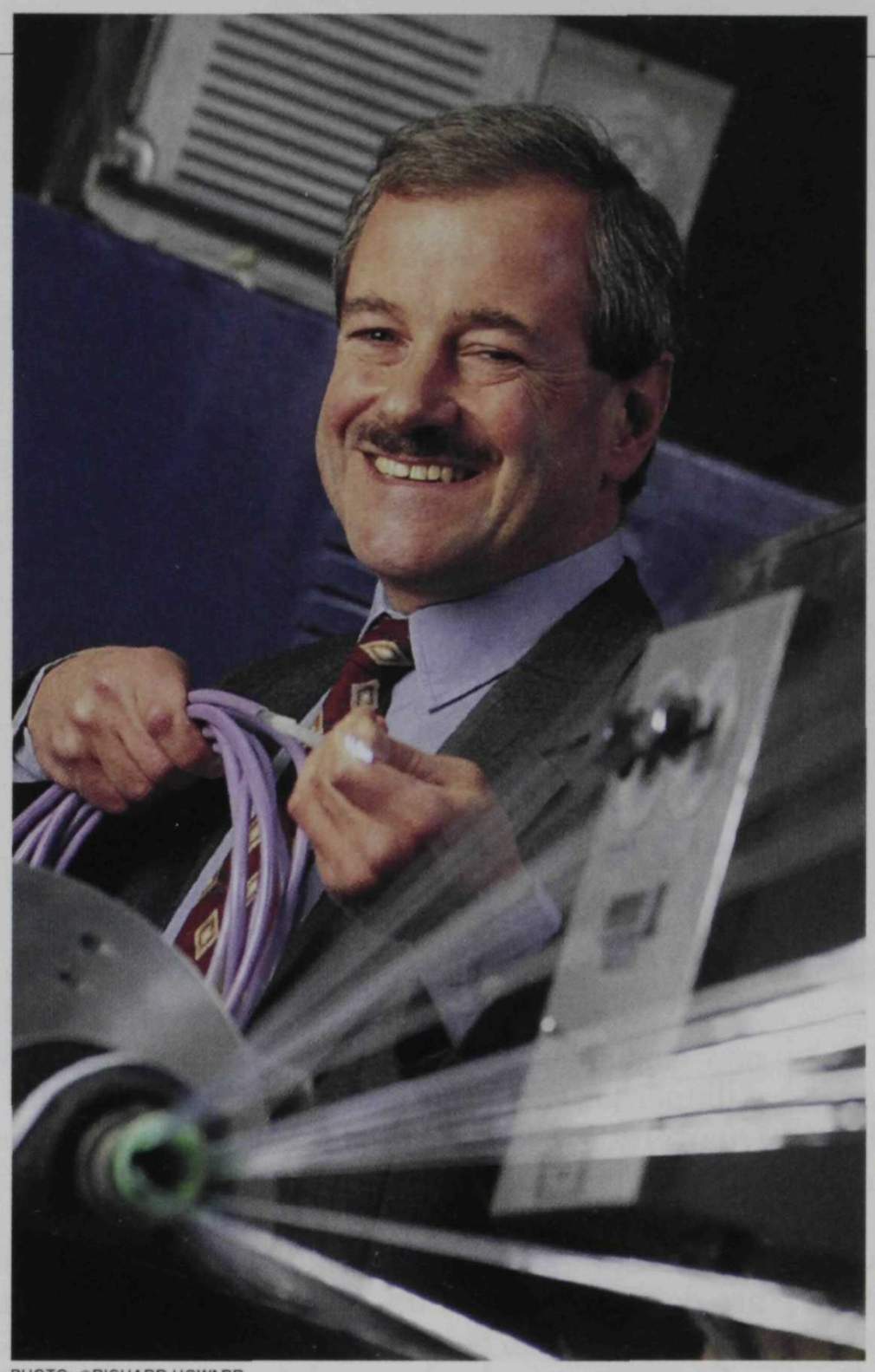


PHOTO: ©RICHARD HOWARD

Balancing *immediate and long-term needs in choosing software was the challenge met by Michael Kerr of Boston Optical Fiber Inc.*

Before signing a purchase order, Kerr did his homework. He read software reviews in computer magazines and looked at demonstration versions of each of the programs he considered to be finalists in the selection process. He decided on the Solomon package because it had the features he wanted and could be installed relatively quickly and easily.

For business-planning tasks, Kerr selected a modeling program he had used in a previous job, Cashé, from Business Matters Inc., in Waltham, Mass. Business modeling software enables owners to analyze their companies, make plans, and evaluate financial conditions.

"As a small business, we have to make evaluations quickly," Kerr says. "I don't have several months to look at the applications. To me, it comes down to what's in the content and how intuitive the product is."

Fast-growing companies such as Boston Optical Fiber have a common dilemma: They need to have software systems in place that can support their business operations reliably now and in the future, yet they often need to make software purchasing decisions quickly and without technical guidance.

To complicate matters, software technologies keep changing, making it hard for even technically oriented people like Kerr to keep up with developments.

"There are more choices than ever before, so it's hard to make the right decision," says David Vogel, who manages business-system advisory services in a three-state area for the accounting and consulting firm Coopers & Lybrand LLP in New York. "It's now easier to make the wrong decision."

It's all too easy for small-business owners to become utterly confused by the myriad new software offerings that seem to hit the stores with regularity—everything from new computer operating systems such as Microsoft Corp.'s Windows 95, to suites of software for basic office tasks such as word processing and spreadsheet work, to groupware for doing work collaboratively.

For large corporations, the job of software selection is relatively easy. Such companies often can afford to retain a big consulting firm, such as Andersen Consulting, Coopers & Lybrand, or Ernst & Young, to examine their business processes and advise them on the software they need.

That level of expertise is out of the price range of many small firms, however. They must rely on software manufacturers or on resellers, the local dealers who represent manufacturers. These companies know about software but may not know much about plugging any given product into a particular business. Entrepreneurs have to

be smart shoppers who focus on filling specific business needs.

The siren call of the software industry is that companies need to have the latest, fastest software available. The most recent example of this was the release last year of Windows 95, which was widely advertised as making computing faster, easier, and, therefore, more productive.

Some corporate information-systems managers were skeptical, weighing their existing computer investments against the time and cost that would be necessary to upgrade hardware, software, and the network and to train employees to work with Windows 95. In contrast, many small-business owners, eager to get their hands on the latest technology, bought one or more copies of the new operating system as soon as it went on the market.

Experts who work with small companies say owners should not take their eye off their business needs. The question, they say, shouldn't be one of having the latest and greatest but of having core software programs that meet business needs.

"What difference does it make whether you upgrade or not?" says Grady Thomas, president of Allen Smith Associates, a management consulting firm in Asheville, N.C. "The key part is the information you're looking for. Good entrepreneurs will understand that."

When it comes time to choose a software package, get as much information as possible on available products, have vendors demonstrate their wares, and be sure the provider you select will be able to support the product.

In deciding what software to buy, say Thomas and other experts, the first step is to determine which applications are crucial to the business. For most small businesses, these "mission-critical" applications are generally financial- and business-management programs such as accounting, sales-automation, and business-planning software. They are also some of the most complicated types of software to buy, particularly for rapidly expanding companies.

"Small companies have a significant problem because, in some senses, they're beyond the capability of single computer packages," says Paul Newcum, president of Paul Newcum & Associates Corp., a management consulting firm in Boston. "The high-end stuff is very, very expensive, so there's a problem area."

Exley Giftbooks, in New York City, faced such a problem recently when trying to choose a new accounting system. The seven-person company, the U.S. distributor for British book publisher Exley Publications Ltd., needed a system that would be easy to use, customizable to its needs, and capable of growing with the business.

The British firm suggested that the company adopt the system it was using successfully in the U.K., but Exley Giftbooks' president, Steven Sussman, decided against it because there was little technical support for the product in the U.S.

In December, Sussman brought his problem to Larry Schiff, president of Business Management International (BMI), a software consulting firm in New York. Schiff suggested an integrated business- and financial-management package called Navision Financials, from Navision Software US Inc., in Norcross, Ga.

The Navision program offered the accounting, sales, and inventory features Sussman needed and was one of the few programs of its type based on Windows 95, which was nearly brand-new at the time.

Sussman says that the transition to the Navision system is going smoothly and that the program has begun to show advantages over its predecessor. For one thing, Exley Giftbooks has been able to take control of the distribution process, particularly inventory. Sussman says the company will spend $100,000 to install the software and the hardware that supports it.

"This was a big decision for a company that probably won't be at sales of $5 million" this year, Sussman says. "If the software doesn't grow with the company, what's the point of making that investment?"

Knowing what types of software a company needs is one thing; choosing among what's available is another. Here, factors such as price and function typically come into play. Small companies want the software to do what

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they need but not to break their budget.

But there's more to software than just the price and features, says Carter J. Lusher, vice president and research director for The Gartner Group, a technology research and consulting firm headquartered in Stamford, Conn. Lusher estimates that the purchase price of software makes up only 20 percent of the total cost of owning a software package—something that companies both large and small often don't realize.

"We've always wanted to concentrate on the features and functions and price," he says. "In the future we should concentrate on the total cost of ownership," such as hardware and software upgrades, maintenance, and employee training. The more critical the application is, the more important such issues become.

In addition, Newcum, the Boston management consultant, says small businesses frequently underestimate the expense and time it will take to get an important piece of software up and running. Depending on the software involved, companies can take anywhere from two months to a year to implement a package properly and can spend a dollar on hardware for every dollar they spend on software.

Newcum says small companies often are tempted to purchase integrated, network-based business systems that require advanced computer hardware and technical support when a simpler, stand-alone system would suffice. "When we hear the word [network], we hear integrated packages, but we should also hear 'great big dollars' and long implementation times."



PHOTO: ©TOM SOBOLIK—BLACK STAR

A software consulting firm *helped lead Steven Sussman, president of Exley Giftbooks, to an accounting system right for his company.*

Choosing the right software can be a complicated task. Not everyone is an expert. One good way to find out what to buy is to ask peers—companies of a similar size or in the same industry. Some industries such as telemarketing, manufacturing, insurance, and health care have unique business needs, and certain programs may become standard among companies. Industry and trade organizations and local chambers of commerce are often good resources for businesses.

Consultants make up another important resource, but exercise caution here. It's important to find a consultant who understands the needs of your business and industry, not just how the software works. Many computer consultants have a background in programming, not business. Accounting and management consulting firms may be a better option. (For help in deciding if and when you need such expertise, see "Consultants To The Rescue," on Page 32.)

"Sometimes you've got to be careful," says Thomas of Allen Smith Associates. "Successful entrepreneurs should be looking at other successful entrepreneurs in their field to lead the way."

Local computer-user groups constitute another resource, particularly for learning about the products that are available and for meeting other people who are using a piece of software. They range from broad, general-purpose groups to ones specializing in particular types of software. Check local newspapers, computer-user publications, and computer stores for information.

Another concern is how to purchase the software and from whom. There are good small-business accounting programs available in retail computer stores or by mail order. They include Peachtree Accounting, from Peachtree Software, in Norcross, Ga.; Quickbooks, from Intuit Inc., in Mountain View, Calif.; and Simply Accounting, from Computer Associates International. The same thing goes for common business software, such as word-processing, spreadsheet, and basic contact-management programs.

Complex software such as integrated business packages can be purchased generally through resellers. These resellers may specialize in selling one or more of these packages and often provide installation, custom programming, maintenance, and training.

When the time comes to choose a pack-

For Help In Making A Choice

Small companies often encounter difficulties finding reliable help in making software-buying decisions.

The following resources may offer valuable assistance:

The Association of Personal Computer User Groups is a Dallas-based national umbrella organization for groups of computer users with a wide range of software and hardware interests.

The association maintains an automated telephone system that can provide contact information about user groups by location. Call (914) 876-6678.

The Institute of Management Consultants can provide information about consultants nationwide that have management and software expertise.

You can contact the institute in writing—the address is 521 Fifth Ave., 35th Floor, New York, N.Y. 10175-3598—or by phone, (212) 697-8262.

Paul Newcum & Associates Corp., a software consulting firm, has published a paper, "Business Plan for Acquiring New Software."

The document is available by e-mail at *pnacorp@world.std.com.*

age, get as much information as possible about what's available, then bring in vendors to demonstrate their wares.

Beyond that, find out how many companies are using the program, and get the names of people who can vouch for it. Make sure you're confident that the software developer is going to be around to support the product.

"You're not just buying the software, you're buying a small piece of that company," says Coopers & Lybrand's Vogel, who compares making an important software purchase to hiring a new employee. "You want to make sure that, A, they're going to be there, and B, they're going to continue [to be there] into the future."

Finally, small companies should let their needs drive their purchase. Consultant Newcum suggests that small-business owners draw up a written business plan for software purchases that outlines their company's needs, the type of software they're looking for, and their software budget. By sticking to the plan, they have a measuring stick to guide the decisions they make. NB

To order a reprint of this story, see Page 53. For a fax copy, see Page 6.

Getting Customers Involved

Some software companies have learned that today's product problem could be tomorrow's solution.

To minimize future customer problems and complaints, many software companies have begun efforts to involve current users of their products in the development of their next-generation offerings.

"We're servicing the needs of thousands of different businesses," says Craig Pyne, marketing director for DacEasy Inc., in Dallas, developer of the popular DacEasy small-business accounting package. "It's absolutely vital that we have feedback from our customers because without it, we can't keep up with what these different businesses are doing."

A Database Of Comments

The starting point for a company such as DacEasy is its software "help" line, through which the technicians who field incoming calls assemble a database of common customer problems and suggestions.

In addition, many software companies have ongoing programs designed to elicit comments and ideas for improvements from a selection of business customers. In the past, these programs have tended to be dominated by large corporations, but recently developers have been recruiting small companies as that market grows in importance to their business.

Microsoft Corp.'s "contextual inquiry" process entails sending members of the product-development team into small companies to record how they operate and how they use software on a daily basis. Microsoft uses this research to create a model of the specific features as well as the general types of software products that small firms want.

"We want our software to work the way people work," says Linda Mitchell, home and small-business marketing manager with Microsoft's desktop-applications group. "We don't want to force people to work with our software."

Uncovering The Flaws

Software companies also have begun to get business customers involved in the product-testing process. One recent innovation is the software "usability testing" facility. Software companies bring end users into these laboratories to try out software at various stages of development while software designers watch and videotape the process from behind one-way glass. It can be an eye-opening experience for designers and users alike when serious flaws in how the software looks and operates are exposed.

"There have been features that have literally been dropped from products," says Lisa Underkoffler, director of SmartSuite product management for IBM Corp.'s Lotus Development division. "We'd thought we'd done some great implementations, but we found that people couldn't actually use them."

Before releasing software products, software companies distribute them to customers and vendors for so-called beta testing to find out how they perform in actual workplace conditions. The beta tests give companies a final chance to fix glaring problems in the software and provide a first chance to see where improvements can be made in future versions.

Joining In

Getting involved in the development process can be surprisingly easy for users. Many software companies maintain user forums on the Internet or within on-line services such as CompuServe and America Online, where they elicit customer suggestions and recruit people for product tests. To ask about joining a customer program for a software product, contact the product manager in charge of its development.

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BENEFITS

Workers' Comp Via Managed Care

Workers' comp insurers that use a managed-care approach may be able to help some small firms cut costs.

By Roberta Reynes



PHOTO: ©PAUL F. GERO

Safety training *through a managed-care plan helps Robert Carpenter, left, control workers' comp costs at his drywall company; with him is field supervisor Manuel Venegas.*

Three years ago at Robert Carpenter's drywall company near Phoenix, claims for workplace injuries totaled nearly $21,000. But by last year, with 30 percent more employees on his payroll, his worker's compensation claims had dropped nearly 38 percent, to just over $13,000.

It's no secret how Carpenter managed to shrink workers' comp claims at his business, Able Drywall in Peoria, Ariz. He switched to an insurer committed to a managed-care approach to workplace accidents and injuries—the state-sponsored Arizona State Fund, which competes in the private market for business.

And Carpenter is not alone. Nationwide, many workers' comp insurers have adopted managed care as a cost-effective way to treat workers' injuries. That enables small firms such as Able Drywall, with 50 year-round employees, to choose managed care over the traditional approach, which makes no attempt to restrain choice of doctors or cost of care.

Managed care brings to workers' comp the same cost-cutting strategies used in group health insurance—and more. Just as with group health policies, workers' comp insurers restrict employees' choice of doctors, provide case management, and review treatment decisions. But managed-care providers for workers' comp claims must go a step further than other managed-care providers. They must also be concerned with rehabilitating an injured worker to return to work. And they often teach safety techniques that can prevent accidents and injuries from happening in the first place.

So far this decade, more than half the states have enacted laws that encourage the use of managed-care networks to treat workers for job-related illness or injury. The driving force behind the rapid spread of workers' comp managed care is the high cost of medical treatment. Traditional workers' comp provides workers with a virtual blank check for medical care and guarantees they will have no out-of-pocket expenses.

By law, employers pay the premiums, and workers receive treatment at no personal expense. In exchange for picking up the tab, employers get insulation from liability lawsuits stemming from workplace injuries and illness.

Workers' comp coverage has two components—medical costs and replacement of wages lost because of disability. Medical costs have seen the sharpest rise over the past decade. They increased at an annual rate of 15.6 percent between 1984 and 1990, but that rate has since declined to about 5 percent.

Part of the deceleration is attributable to a general decline in cost inflation throughout the economy. But managed care also is credited with playing an important role. David Durbin, vice president and director of research at the National Council on Compensation Insurance, says managed care has had a "very significant impact" on slowing medical-cost growth. The council, based in Boca Raton, Fla., is a leading source of workers' comp data.

Getting injured workers back on the job, even at light-duty assignments until fully recovered, also reduces disability payments by workers' comp insurers. "Research suggests that managed care, through practices like early intervention and preventing the disability mind-set from occurring, gets people back to work sooner," says Durbin. "We're already seeing higher case-closure rates, a strong indicator that future costs aren't going to be as great as projected."

No one knows exactly how many workers' comp insurers have begun to offer managed care since the early 1990s, but industry watchers describe a real sea change. "All companies have a lot more options than a few years ago," says Jane Anderson, editor of *Workers' Comp Managed Care*, a newsletter produced by Capitol Publications, in Alexandria, Va. "There has been a tremendous increase in the number of providers."

Says Laurence Miller, workers' comp medical director at Community Care Network, based in San Diego and the primary managed-care provider for the Arizona State Fund: "For the first time, the small-business owner is in the driver's seat."

Roberta Reynes is a free-lance writer in Spencertown, N.Y.

A recent study of one category of managed-care providers—health-maintenance organizations—underscores the point. The number of HMOs offering workers' comp coverage exploded from 17 in 1994 to 72 in 1995, according to a study by Milliman & Robertson, a nationwide actuarial and benefits consulting firm. Self-insured groups, usually composed of small companies, are a prime target for the HMO workers' comp networks.

But HMOs are hardly the only providers wooing small businesses. Major insurers such as ITT Hartford, based in Hartford, Conn., have moved aggressively into this area. The company's workers' comp managed-care program covers about 100,000 businesses with 100 or fewer employees.

Wausau Insurance Cos., in Wausau, Wis., has seen an "explosion" in its Safety Group Dividend Plan program during the past three years, according to Harold Larson, vice president for custom accounts. The plan is geared to small companies bound together through associations or franchise groups.

Although it is experiencing a surge in popularity, workers' comp managed care is not a standardized box of cereal to grab off the shelf. Definitions vary, and so do plans' procedures.

At first, medical providers focused on organizing a network of hospitals and doctors, such as preferred-provider organizations (PPOs), to deliver care for occupational injuries. More recently, a "new generation of sophisticated managed-care programs" has sprung up, says the Community Care Network's Miller. They offer "extensive medical-utilization management, professional bill review, disability management, return-to-work coordination, prescription-drug management, information reporting, and data analysis."

In addition, some insurers have added accident prevention to their managed-care offerings.

With so many variables, it's difficult to estimate just how much an individual company might save by switching to managed care. Jim Walter, president of ManagedComp, a Waltham, Mass., company involved solely with workers' comp managed care, says: "The average cost per [medical] claim is over $4,000 in most states. We're down closer to $2,000.

"Similarly, on loss ratios [the amount of claims paid out as a percentage of premiums], the national average is 60 percent to 65 percent. We are 35 percent to 36 percent."

Community Care Network recently studied figures for 12 of the states in which it operates and found that average employer medical-cost savings ranged from 17 percent to 52 percent, depending on the state.

Because of the number of options available, some companies choose to negotiate the details of their workers' comp package. That was the approach taken by Rocky Eveans and his brother, Rodney, when they signed up recently with a new comp insurer. Their company, EVCO National, of Wood River, Ill., is a commercial, military, and industrial painting contractor with 90 year-round employees.



PHOTO: ©TOM EBENHOH—PHOTOGRAPHIC RESOURCES

Painting contractors *Rocky and Rodney Eveans find managed care effective for handling worker injuries.*

Rocky, the company president, and Rodney, the executive safety director, used a risk consultant who steered them to ITT Hartford, largely because of its managed-care program. Since signing with ITT Hartford two years ago, EVCO has seen its premiums drop about 35 percent. Medical expenses alone are down almost 30 percent, says Rocky Eveans.

The brothers stipulated in their contract that the insurer would perform 12 safety inspections annually at various job sites. "We agree ahead of time," says Rocky Eveans, "on what the loss-control person should focus on, based on a historical analysis of EVCO's losses."

The contract also permits EVCO itself to handle minor injuries—those that require minimal medical care—instead of calling in the insurer. "We'd rather pay for it," explains Eveans. "It costs Hartford more than it costs us to write a $500 check."

By handling small claims internally, EVCO avoids a negative impact on its workers' comp accident history, called an experience modification rating, or MOD. A MOD of 1.0 means a company's accident history is average compared with others in its industry. Insurers typically raise premiums when the MOD climbs much past 1.0.

When an injury requiring time off from work occurs, ITT Hartford assigns a nurse case manager immediately, which Eveans sees as an important advantage over traditional workers' comp coverage.

Like the Eveans brothers, James L. Luse went hunting for a new workers' comp provider—and came back with great savings from managed care. Luse is director of administration and CFO of the Livengrin Foundation Inc., in Bensalem, Pa. It is a private organization that offers drug and alcohol treatment and associated services.

Four years ago, Luse decided that his insurance agent was not sufficiently knowledgeable about Livengrin's business. At the time, the foundation was in the state's high-risk pool and was paying almost $1,000 per employee per year for worker's comp insurance.

The new agency helped put Livengrin in touch with ManagedComp. In the first year after Livengrin signed with the firm, the foundation saved $10,000 in premiums. In 1995, premiums dropped an additional $30,000. "In two years, we've saved almost a third," notes Luse with satisfaction.

He attributes the drop in rates to ManagedComp's comprehensive approach to managed care. "They put on workshops and seminars, mostly on safety, not only for the supervisors but for all employees," says Luse. "This gives employees a sense that ManagedComp is on their side—it's not an adversarial relationship."

Says Luse: "It's very clear to me that our employees are getting much better care than they did before. I have not had one complaint from an employee in almost two years."

The insurer's representative can be central to the success of managed care, says Carpenter of Able Drywall. "Laura Guerrero at Arizona State Fund put our managed-care program in place and is largely responsible for getting us where we are

now," says Carpenter. "For example, she initiated training programs for ladder safety, scaffolding safety, et cetera. She went out on the jobs, walked each of the sites where the crews were working. She met with the [drywall] hangers, then the tapers and finishers, the texture people. She let us know what she found and how we could improve. As a result, we cut losses in half."

Guerrero also suggested a simple but effective innovation: a safety-awards program. Every 90 days, any employee who has avoided a workplace injury during that time receives a gift, such as a hat, sweat shirt, or gift certificate.

The program has been in place for two years, and Carpenter reports that "employees are very excited about receiving their next gift. It has really been a big help."

When injuries do occur, the company can consult a map with phone numbers and locations of clinics available through Community Care Network.

Like Carpenter, M.J. Gilbert says she believes her Arizona State Fund representative is "something special." Gilbert and her husband own J.B. Roofing, Inc., a 65-employee business specializing in residential roofing. It too is based in Peoria.

"I have probably one of the lowest MODs for roofing in the area," says Gilbert, adding that loss-prevention consultant Sharon Pugh's help with safety programs is one reason. "She goes out of her way—if I say I'm going to have a safety meeting at 7 a.m. on Saturday, she's there."

"There's no definitive research suggesting that managed care has compromised the quality of care and access to it."

—David Durbin, National Council On Compensation Insurance

After receiving a list of the industrial clinics offered by Community Care Network, Gilbert, who is also a registered nurse, interviewed several. "The clinic managers tell you the qualifications of the doctors," she explains. "But I also ask: 'What are your hours?' In summer, some men start at 4:30 a.m. I want the clinic open. I ask about capabilities: If they have to have sutures, will the clinic do it, or send the worker to the emergency room?

"In the latter event," she notes, "you get triaged—the cases are put in order, based on how critical they are. Then the person waits—you can lose a day's production for a minor injury. In contrast, in an industrial clinic, everybody has roughly the same thing. You get taken care of quickly."

While workers' comp managed care offers new options, there are reasons for caution, too. Durbin of the National Council on Compensation Insurance notes: "There's no definitive research suggesting that managed care has compromised the quality of care and access to it, but these issues are always a concern."

James Ellenberger, assistant director of the AFL-CIO's Department of Occupational Safety and Health, in Washington, D.C., sees opportunity for abuse in comp-specific medical decisions.

He notes that the doctor decides whether the condition is employment-related. The doctor also influences the decision on a worker's disability rating, which could affect a disabled worker's payments for life. Finally, Ellenberger says, the doctor decides the conditions for return to work, such as being able to lift 25 pounds.

Warns Ellenberger: "Remember who signs the doctor's check." He advises that business owners, as a safeguard, allow employees to help select the workers' comp doctors.

Some entrepreneurs have already found that they need to be discerning when insurers come calling. Carpenter, who tries to avoid calls from prospecting carriers, recalls a dubious sales pitch from a workers' comp insurer touting managed care. "They said that after two years as their client, we'd receive an astronomically big [refund] check. We asked what they were going to do to get us to these great new savings. Their answers were broad; there was nothing specific. Then we asked to talk to someone they covered. They couldn't produce anyone. They said they were new in the area. We decided that we just didn't see the substance behind their fluff."

Rodney Eveans of EVCO offers advice on how to screen prospective workers' comp insurers: "Can they prove claims of cost saving from past experience? Are they willing to put what they say they are going to do in writing so there's no misunderstanding on who is going to do what? Are they willing to subject themselves and the insured to performance reviews?"

Willingness to produce acceptable answers to these questions "is where the carriers as a group tend to be pared down significantly," says Eveans. NB

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LEGISLATION

Getting A Fix On Bad Laws

A year's worth of revisions in unworkable rules has proved to be a type of political correctness that appeals to both parties.

By James Worsham

When Republicans railed against the federal government in the 1994 congressional campaigns, they were fond of citing out-of-date or nonsensical laws and regulations—some of which, they argued, were downright dumb and needed correcting.

So after the GOP took control of the House for the first time in 40 years, party leaders sought to do something about those silly rules: They started "Corrections Day."

As conceived by Speaker of the House Newt Gingrich, R-Ga., Corrections Day would be time set aside regularly for expedited consideration of bills aimed at correcting unworkable or unnecessary laws or rules or avoiding their unintended consequences.

The importance of Corrections Day for small business has been more symbolic than practical so far. Getting any part of the federal government to acknowledge, much less correct, a mistake, a bad rule, or an unworkable policy has traditionally been difficult.

But a year after the first Corrections Day in the House, eight "corrections" have been passed by the House and the Senate and signed into law by President Clinton. (See the chart at right.) Seven others have been sent to the Senate for action. No corrections measure has been vetoed.

Defining The Goal

"We've had a good track record," says Rep. Barbara Vucanovich, R-Nev., chairman of the Corrections Day Advisory Group, which includes seven Republicans and five Democrats. "I think it's worked, and I think it's going to continue to work."

Rep. Henry Waxman of California, a senior House Democrat and the top-ranking member of his party on the advisory panel, says that when Corrections Day was first proposed, he had "fears and suspicions" that it would be used by special-interest groups to undermine federal programs. But so far, he says, he has been "pleasantly surprised."

No one was quite sure exactly what a Corrections Day bill ought to be when ruling House Republicans scheduled the first Corrections Day a year ago. "It's hard to put your finger on what you're looking for," says Vucanovich. But it was agreed that a Corrections Day bill would not try to repeal major programs, gut federal agencies, or change the basic tenets of laws or regulations. Those kinds of things would be left for fuller debates.

Corrections Day proposals, according to Vucanovich, have to be narrow—targeted to something that is clearly a problem, such as a specific rule or application of a rule—and able to garner widespread support in both parties.

She says House members are invited to come before the advisory group and make their case for their "bills." At times, she adds, agencies have been encouraged to suggest corrections to laws they must administer.

Car Pools And Saccharin

The most meaningful of the eight measures enacted to date, says Vucanovich, is the law ending the "forced carpooling" mandate. The rule required that businesses with 1,000 or more workers in high-ozone areas institute plans to reduce the number of automobile trips by their employees going to and from work. The Corrections Day law repealed the federal requirement, but states can enforce it if they choose.

Rep. Donald Manzullo, R-Ill., made the proposal after officials in McHenry County, in his northern Illinois district, complained that such a plan was unworkable there because it is a rural county with no public transportation. The county was subject to the carpooling mandate because it lies in the greater Chicago area, which still hasn't attained federally prescribed reductions in its pollution levels.

Waxman, one of Congress' leading proponents of strong environmental legislation,

Corrections On The Books

As of June 1, eight Corrections Day bills had been approved by the House and Senate and signed into law by President Clinton. Following is a summary of each measure:



Requires federal officials to differentiate between petroleum oils and animal and vegetable fats and oils in anti-pollution regulations.



Prohibits nonelderly drug users and many former users from living in public housing for the elderly. Nonelderly drug users can be evicted.



Repeals a 1977 requirement that stores selling products with saccharin post a notice in the window. Saccharin notices now appear on packages.



Eliminates or modifies requirements for 200 congressionally mandated reports, which have already been discontinued or are no longer needed.



Ends the requirement that large companies in areas of high ozone levels have "forced carpooling" to reduce workers' use of automobiles for commuting; will be optional for states.



Exempts from securities law large gifts to charities, such as stocks or cash, by people who will receive income from the donated assets as long as they live.



Exempts from antitrust law large gifts to charities, such as stocks or cash, by people who will receive income from the donated assets as long as they live.



Removes the limit of two five-year Higher Education Act grants available to historically black colleges and universities for graduate and professional programs.

agrees that the carpooling measure was the most significant of the corrections enacted so far. And he says he doesn't think it weakens environmental standards because states can still use the carpooling rule to cut pollution.

Another Corrections Day measure was pretty much a formality but was widely regarded as necessary nonetheless. Signed into law this spring, the measure repealed the requirement that stores selling foods containing saccharin post a window notice about the ingredient, which has been linked to cancer in laboratory animals.

Proponents of repeal said the rule was unnecessary because all foods containing saccharin now must have such a notice on their packaging. Nonetheless, stores technically could have been fined if they didn't have the notices posted in their windows.



Corrections Day has "worked, and I think it's going to continue to work."

—Rep. Barbara Vucanovich, R-Nev.

Unfinished Business

At press time, a number of Corrections Day bills passed by the House had yet to be approved by the Senate. One of them, of special interest to small business, would repeal Labor Department rules that now prohibit 16- and 17-year-olds from loading cardboard materials into balers and compactors at food stores and other businesses; the teens could do the loading provided the machines were approved by the American National Standards Institute, but under no circumstances could they unload or operate the machines.

Another House-passed corrections measure, co-sponsored by Vucanovich and Waxman and pending in the Senate, would end duplicative systems of reporting on problems about medical devices. Two laws enacted at different times, 1984 and 1990, adopted separate requirements for disclosures about "adverse reactions" to medical devices, Waxman says. The 1984 requirement would be repealed.

The first Corrections Day bill passed by the House is also among those yet to be approved by the Senate. It would give San Diego a permanent exemption from certain waste-water-cleanup provisions of the Clean Water Act that the city says force it to clean sewage water twice to comply.

Special Treatment

Unlike most other legislation, Corrections Day bills get expedited treatment in the House. The advisory panel, currently chaired by Vucanovich, recommends bills for consideration. Nonetheless, legislation still must be referred to and reported out of the House committee that has jurisdiction over the issue.

When a Corrections Day bill reaches the House floor, the rules limit debate to one hour, with no amendments allowed. Sixty percent of House members present and voting must favor the bill for it to pass. A bill that fails to get the 60 percent could still be considered under normal House procedures.

(Corrections Day business is conducted under a slightly different system than that for bills on the "suspension calendar" in the House. Bills considered on that calendar are noncontroversial and require a two-thirds vote with only 20 minutes of debate; most are approved on voice votes.)

Since it was initiated, Corrections Day business has usually been conducted on the second and fourth Tuesdays of each month. Once the House approves a Corrections Day bill, it goes to the Senate, which has no similar forum for such measures. Senate procedures are unlike those of the House, however, in that they allow for speedy action at any time on any bill to which no senator voices an objection.

Vucanovich says that Senate Republicans Don Nickles of Oklahoma and Spencer Abraham of Michigan have been monitoring Corrections Day bills sent over by the House and have been working to get them approved in the Senate.

Looking Ahead

The future of Corrections Day isn't clear. It could continue to operate as it has, targeting the most egregious rules or misapplications of regulations that have made life difficult for businesses, their employees, or the public.

As such, it could serve as a sort of mini-regulatory reform, providing a continuing forum not only to correct obvious problems with laws and regulations but also to let House members showcase the need for comprehensive regulatory reform.

But will Corrections Day, a creation of Republicans in the highly partisan House, survive if the Democrats regain control of that chamber in this fall's election?

Says Waxman: "I see no reason why it shouldn't continue. We should always look for provisions that don't make sense and are duplicative." NB

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MARKETING

The Lighter Side Of Promotions

They can spark interest in products and build excitement about firms.

By Roberta Maynard

A contest inviting grown people to teach their dogs to say "pasta"? It's the stuff of great—and fun—promotions.

And it's pet-food maker Richard Thompson's way of getting dog owners to notice his product. He is president of Thompson's Pet Pasta Products, Inc., a Kansas City, Kan., firm. Because his new, $8 million company lacks the comparatively fat advertising budgets of his competitors—the industry giants—he decided to use promotions to plant the notion that pasta is good for dogs and that dogs like pasta.

This is no shaggy-dog story. The nationwide "Teach Your Dog To Say Pasta" contest began in March, and the company has received videotape entries from several canine contestants.

The contest is the centerpiece of a promotion developed for Thompson's company by The Richards Group, a Dallas advertising agency. Thompson is running 60-second radio spots about the contest in several target markets around the country. To reinforce the notion that dogs and pasta go together, he tied in other elements of his business, including the phone number 1-800-PASTADOG and product names such as Woof-A-Roni dog treats.

There will also be promotional events in grocery store "barking lots" in as many as 30 cities this summer. Hot dogs will be sold, of course, and dogs are invited to participate in costume contests and other lighthearted fun. As Thompson knows, if your goal is to take a bite out of the $9 billion-a-year pet-food industry, sometimes you have to be a publicity hound.

The promotions will end in August, when the winner of the talking-dog contest will be announced; its owner will receive a paid two-week trip to Italy, where Thompson first encountered dogs dining on pasta.

Thompson's promotion reflects his plan for rapid national growth and for revenues to reach $100 million in six years, but not all promotions need to be as elaborate. For example, Elaine Petrocelli's approach over the past 10 years has been to offer promotional activities continually, giving customers the sense that something of interest is always going on at her store.

Petrocelli, president and co-owner of Book Passage, an independent bookstore in Corte Madera, Calif., near San Francisco, stages some 400 events of various kinds each year. She also publishes a 16-page customer newsletter, has an Internet World Wide Web site, and offers a menu of classes and workshops. Her favorite promotional activity is a call-in radio show, on which she evaluates the best and worst books of the season. She says promotions have kept her business thriving in the face of competition from giant bookstore chains.

Small companies can reduce the cost of publicity efforts or increase their scope by teaming up with other businesses. For Pet Pasta's events this summer, Thompson joined with several companies, notably grocery chains eager to regain business lost to pet superstores.

And in organizing Book Passage's annual travel writers' conference, Petrocelli, for the fifth time, has nabbed British Airways as a co-sponsor. The airline pays to bring top writers to the four-day conference and awards free air fare to Europe to the participant who writes the best travel article during the event.

Partners can be tapped for smaller events, too. To heat up lagging cookbook sales, Petrocelli often has arranged with a high-quality restaurant to prepare a meal from a new cookbook while the author is on hand to talk with the paying guests.

In another ongoing arrangement, a top radio station in San Francisco gives out Book Passage's phone number whenever it features an author on a program. The bookstore fills the resulting book orders and splits the profits with the station.

An unusual approach by a Minneapolis company to promoting its air support mattress has sent revenues bouncing up to $67 million in 1995 from under $1 million just four years ago.

Mark de Naray, president of Select Comfort, aimed to bring a different type of product into a market dominated by innerspring kings Sealy, Serta, and Simmons. To get his product not only in front of customers but also under them, he has had his mattresses placed at airport terminals, state fairs, and other heavily trafficked places. He even persuaded mall developers to let him display the product—horizontally—in mall walkways.

Fun promotions can create interest in new products, sustain excitement about companies, or establish the identity of a new or changed business. A multifaceted approach often is the most effective, and a liberal dose of creativity is recommended. In the promotion business, after all, it can be a dog-eat-pasta world. NB



PHOTO: ©SHAWN SPENCE

In Indianapolis *on a grocery-store tour, pet-food maker Richard Thompson meets with Molly O'Neal and Brownie.*

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PLANNING

changing technological conditions, and certainly not to Alzheimer's.

Stress was a secondary symptom, but that could be understood only in retrospect. Sam's business was successful precisely *because* he could anticipate and adapt to change. But depression drained Sam of foresight and vigor.

Anticipating and embracing change requires great enthusiasm and energy. The "old" Sam would have been taking seminars in new technology or hiring young blood. The depressed Sam had reacted to the changing business environment with weariness. Sam had always been stubborn and sure of himself, but he had always used these traits to mobilize, not to entrench, himself.

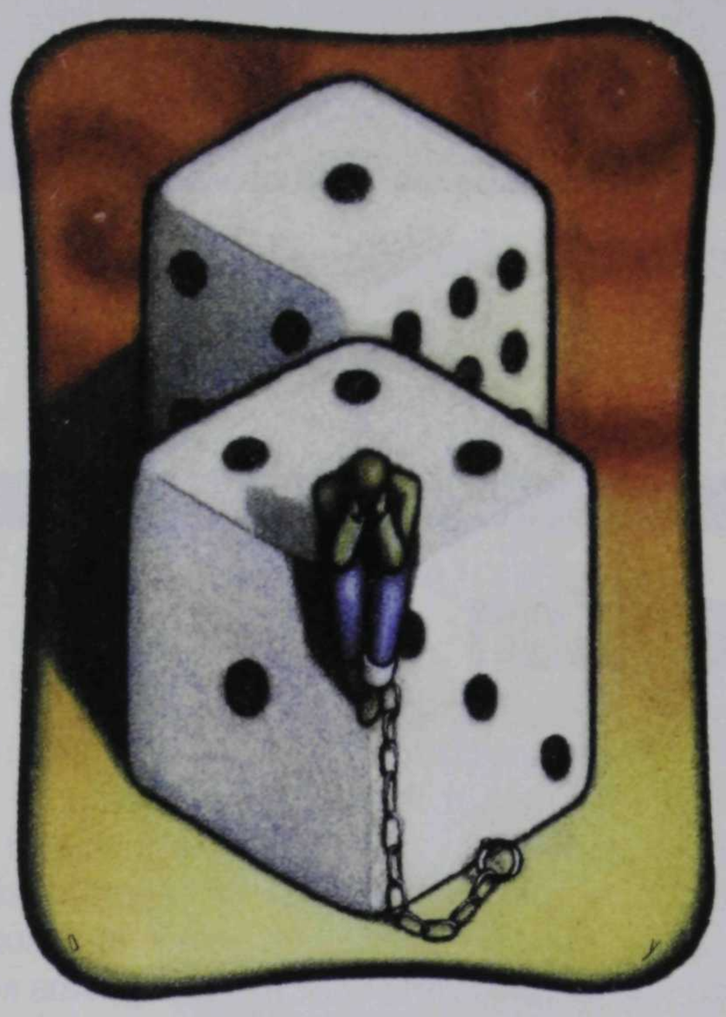


ILLUSTRATION: TROY THOMAS

Depression occurs at any age. While recent research supports a strong biochemical component, to see depression as strictly biochemical denies intricate connections between body and mind. Emotions and neurochemistry interact.

Sam's depression came from an unconscious thought process. Early in 1994, he had "celebrated" his 60th birthday. His father had had a fatal heart attack at 60. Talking with the therapist helped Sam realize that he had not only been mourning his father all over again but had also been questioning the value and meaning of his own life.

This type of questioning is not unusual for a man Sam's age and can have great value. But for Sam, the questions were raised in the shadow of unconscious grief and a fear of sudden death.

This fear triggered Sam's feeling of having no control over his life. His gambling was in part an expression of this fear—an attempt to gain back control through magic and wishing.

As Sam came to these realizations, the depression began to fade away. By discovering his own thoughts and by bringing his grief and fears—secret even to himself—into the open, Sam was able to regain a feeling of control over his life. That was exactly what he, and his business, needed.

Depression usually is not cured this quickly and neatly. As a rule, the longer it has been in force, the longer the healing will take. Antidepressant drugs may be prescribed. Quick identification and early treatment can decrease the likelihood of irreparable harm to the individual, the family, or the business.

Succession in family businesses often stirs up depression. When children take over a company, the retiring head of the business and family may experience a precarious sense of identity or a loss of self-esteem.

Be alert for depression during any period of difficulty in the family business, however. Because of the inextricable entwining of family and job, people in family businesses often feel they are shouldering not only the economic well-being of their immediate and extended family but even the honor of long-departed forebears. This heavy burden increases the price of perceived failure.

Getting qualified help is crucial. If you see unusual behavior, urge your "Sam" to talk to a psychologist or a physician.

And if you find yourself in circumstances like Sam's, listen to yourself—and to others as they caringly express concern. ■

Resources

Additional information on depression can be obtained from the following organizations and institutions:

■ American Psychiatric Association, Division of Public Affairs; 1400 K Street, N.W., Washington, D.C. 20005; (202) 682-6220.

■ American Psychological Association, Practice Directorate; 750 First St., N.E., Washington, D.C. 20002; (202) 336-5500.

■ Mayo Clinic, Executive Program; 200 First St. S.W., Rochester, Minn. 55905; (507) 284-2511.

■ Menninger Clinic; P.O. Box 829, Topeka, Kan. 66601; (913) 273-7500.

■ Executive Clinic—Greenbrier Hotel; West Main Street, White Sulphur Springs, W.Va. 24986; (304) 536-1110.

MARK YOUR CALENDAR

July 30, Waco, Texas

"Developing Next-Generation Leadership" is a breakfast meeting sponsored by the Institute for Family Business at Baylor University. For more information, call Bob Hughes or Susan Meacham at (817) 755-2265. Ask about additional programs in San Antonio, Houston, and north Texas.

Aug. 14, Nationwide

"Keeping a Bigger Piece of the Family Pie: Estate Planning Issues for the Business Owner" is a free satellite seminar sponsored by Edward Jones, a St. Louis-based investment company; the U.S. Chamber of Commerce; and *Nation's Business*. To attend in your area, call Kathy Strange at 1-800-441-1384.

Aug. 15-18, Aspen, Colo.

"The Aspen Family Business Gathering" is an informal conference for families in business. The program is shaped to fit your needs. Call The Aspen Family Business Group at 1-800-835-5883.

Sept. 26-28, Edinburgh, Scotland

"Creating the Conditions for Sustainable Family Enterprise" is the theme of the seventh world conference of the Family Business Network, an international organization of families in business. For more information, contact Barbara Dunn or Kate Lanka at the Centre for Family Enterprise, Glasgow Caledonia University, Park Campus, Park Drive, Glasgow, Scotland, G3 6LP. Phone (44) (141) 331-3125, or fax (44) (141) 337-4404. E-mail: *101346.3072@compuserve.com.*

Oct. 16-19, Philadelphia

"Power Up the Family Business" is the theme of the annual conference of the Family Firm Institute. It will feature sessions on family firms in emerging economies and on technology and the family business, along with a town meeting on "Spirit at Work." Call (617) 738-1591.

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FAMILY BUSINESS

Case Study: Dealing With Poor Performance

"Having our daughter in the business is a constant challenge," says Betsy Bronson. "Kristin tends to confuse the time she spends at the office with productivity."

Kristin, 24, and her sister, Kim, 21, both work at Bronson Pools, the family's swimming-pool construction company. Kristin graduated with a degree in business three years ago and works in the front office. Kim, still in school, works part time.

Tom and Betsy founded the company 10 years ago; he is responsible for construction, and she oversees everything else. Because of the firm's continued growth, they recently hired a general manager, who is doing very well. All four family members, however, are committed to keeping Bronson Pools within the family, with Kristin eventually assuming leadership.

But Betsy and Tom are wondering if Kristin can pull her weight when that time comes. Betsy has been so successful at what she does that she makes it look easy. Kristin claims that her goal is to "do what Mom does." But Kristin, her parents complain, spends more time socializing by phone than planning for sales meetings and presentations. "She makes errors on estimates and then blames someone else," says Betsy.

Betsy has tried several times to give Kristin feedback on her poor performance. These attempts have only left Kristin feeling picked on. The bickering that goes on between Betsy and Kristin has embarrassed Kim several times when nonfamily employees have overheard them.

Kristin's parents say she understands the prestige of ownership but not the attendant responsibility. "Tom and I don't want to jeopardize our parental relationship with Kristin—or Kim," says Betsy. "But how can we preserve it and at the same time hold Kristin accountable for her performance?"

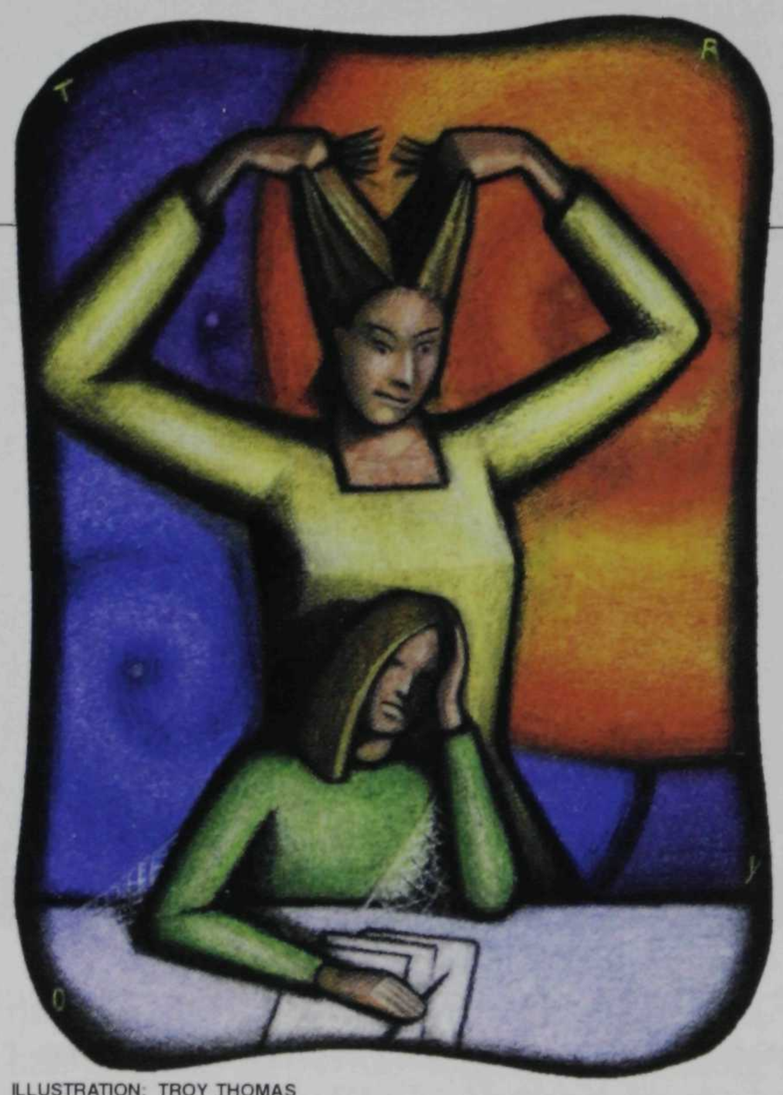


ILLUSTRATION: TROY THOMAS

Response 1

Give Maturity Time To Catch Up

Emotional maturity often lags behind chronological age, and Kristin seems to be an example of this phenomenon. Betsy and Tom recognize the necessity of holding Kristin accountable for her performance. Failure to do so now could establish a pattern of inadequacy and failure that persists for years.

Kristin should be provided with a written job description that includes criteria for measuring accomplishment. Assigning Kristin responsibilities different from Betsy's would remove Kristin's relationship and competition with her mother as distractions from the real issues: Kristin's development and performance.

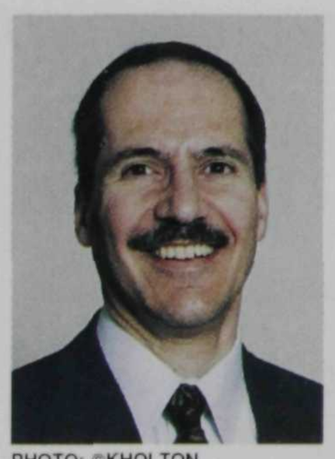


PHOTO: ©KHOI TON

Michael W. Camerota, director of the Center for Family Business at the University of New Haven, in West Haven, Conn.

Betsy and Tom also sense the inherent conflict between the need of the business for adequate performance and the family ideal of unconditional love. To minimize this conflict, their general manager would be the best person to oversee and review Kristin's work.

"Leaving home" emotionally is an important developmental task of adolescence and early adulthood. Children who have never lived on their own or have never held a job outside the family business often take longer to accomplish this task. If this has been Kristin's experience, bickering with her mother may be her way of emotionally separating.

It might be helpful for Kristin to work outside the family business for a time. Once an emotional separation has been more or less achieved, Kristin will probably be less reactive to her mother's feedback and less worried about "doing what Mom does."

Response 2

Spell Out Roles And Goals

Betsy and Tom are facing a crucial dilemma in family-business management, one that sets the tone and pattern for how family employees are held accountable for work performance. They are naturally fearful of losing their parent-child relationship with Kristin, but they also recognize their responsibility to the company.

At first glance, this problem appears to be a fairly simple one. Kristin is reportedly not performing up to parental expectations. An obvious solution is to establish work-performance standards, review her performance on a regular basis, and set clear consequences should her performance fail to improve.



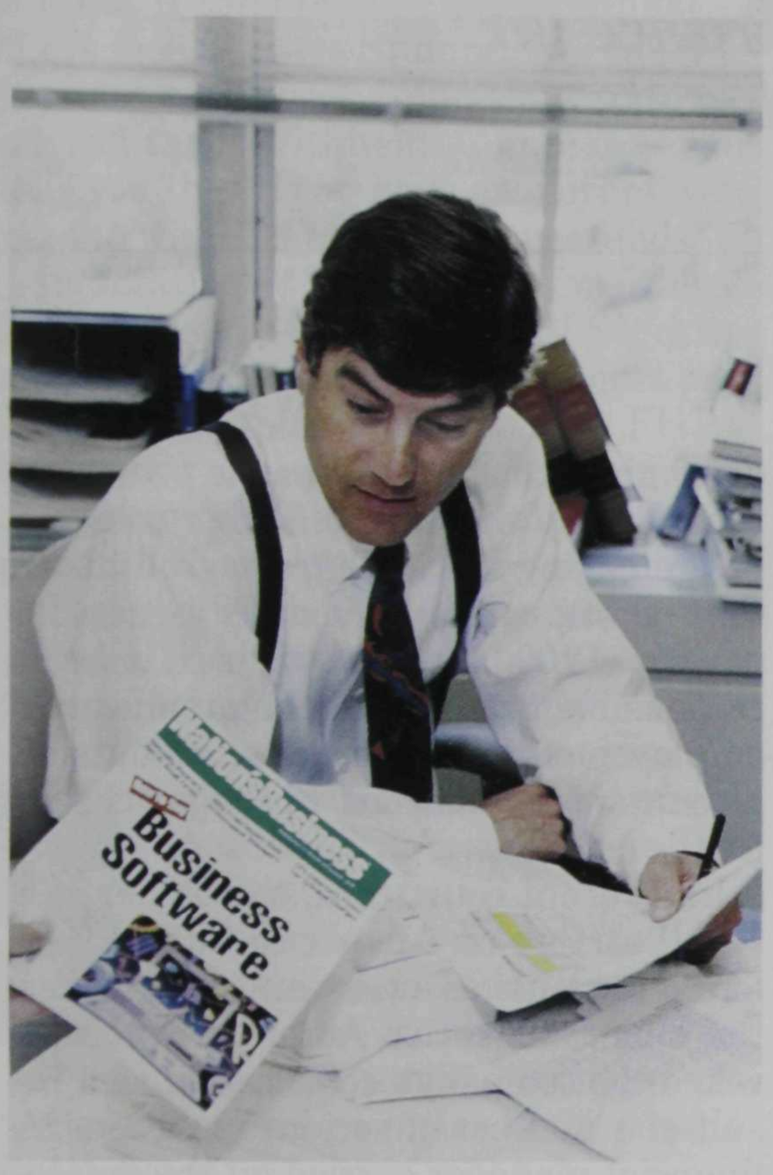
Patricia P. Sullivan, a principal with Sullivan & Sullivan, a family-business consulting firm in Ann Arbor, Mich.

This situation may be more complex than it initially seems, however. For example, has Kristin's role been thoroughly defined, and have work expectations been clearly outlined? Has she received the necessary training and coaching, or has she just been told to "watch and do as Mom does?" Do Kristin's knowledge, skills, aptitudes, and desire match the role she is in? Finally, how does the role of the new general manager overlap or interrelate with Kristin's role now or as the intended family successor?

The family members and the general manager need to work with one another to answer such questions and clarify the issues as well as assess their readiness to address them. Their list of concerns should include performance reviews for key employees, appropriate business behavior, clear roles and expectations, and consequences for inadequate performance.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.

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The Perils Of Payroll Taxes

By Gloria Gibbs Marullo

Payroll taxes rarely surface as an issue for public debate. But for business, they're a serious matter. Thousands of companies go under each year when the Internal Revenue Service demands payment of late payroll taxes.

"Payroll taxes represent a significant portion of the IRS's accounts receivable," says Carolyn Stumpf, a spokeswoman for the agency. "Actually, we prefer to call them trust funds to emphasize that taxes withheld from employees' checks are entrusted to employers to deposit with the IRS. Some businesses, especially financially strapped companies, mistakenly think of withheld taxes as their money."

Employers must pay to the IRS an amount equal to 15.3 percent of an employee's wage income of up to $62,700—half from the employee and half from the employer—to cover Social Security and Medicare taxes. (Together these are known as FICA taxes, for the Federal Insurance Contributions Act.) On all income above $62,700, employers must withhold 2.9 percent—again divided equally between employer and employee—for Medicare taxes. The employer also pays federal unemployment taxes (called FUTA taxes, for the Federal Unemployment Tax Act) equal to 6.2 percent of the first $7,000 of each employee's wages.

Depending on the amount of payroll tax funds you deposit with the IRS, your deadline for filing those taxes can be quarterly, monthly, semiweekly, or the day after payday when the total amount exceeds $100,000. No matter what your deadline, being one day late could subject you to IRS scrutiny and eventual penalties.

Late payroll-tax returns can trigger a series of notices and telephone calls from the IRS. If those attempts fail to resolve the matter, an agent will visit you and review your assets and liabilities. If the agent determines that your business is in a temporary slump, you can work out a payment plan for the taxes due.

What if your business is in serious trouble? "The IRS must be paid before other creditors," says Stumpf. "If all else fails, we will sell your assets to collect the taxes."

An IRS public notice of sale is as close as you come to a business obituary. While Stumpf says the IRS is sympathetic with delinquent business owners, she adds: "Lots of times the business is already bankrupt, but the owner is in denial. We make the difficult decisions the owner doesn't want to face."

Losing a business is bad enough, but things can get worse. If the IRS determines that a "responsible person" of the company willfully paid other creditors before paying Uncle Sam's payroll taxes, that person can be personally assessed a penalty of 100 percent of the back taxes. A responsible person could be an officer or employee of the corporation, an outside accountant, or someone who signs checks for the business.



In a recent court case, the owner of a small airline on American Samoa was forced to resign as a company officer when the Federal Aviation Administration revoked the company's certification as a result of a number of serious violations. A financial manager carried on the day-to-day operations while the carrier struggled to regain certification and failed to pay payroll taxes. It was unclear whether the owner knew of the problem.

In a lawsuit that developed from IRS enforcement action, the court decided that the owner was personally liable for the 100 percent penalty because he retained control of the company's bank account.

There are no breaks for small businesses. If you are a one-person corporation, you are in the unique position of being your own boss—and your own employee. When you pay yourself a salary from the corporation, you have the same payroll-tax liabilities and responsibilities as a 100-person corporation.

Companies operated as one-person sole proprietorships, however, escape much of the payroll-tax paperwork. If you are self-employed, you probably make quarterly estimated tax payments. At the end of the year, you file a Schedule C form, titled Profit or Loss From a Business, with your federal income-tax Form 1040 and pay self-employment tax (the sole proprietor's version of Social Security and Medicare taxes) on Schedule SE.

Life changes when you hire your first employee. While you continue to file Schedules C and SE to report your personal payroll taxes, you must also set up a system to withhold and deposit payroll taxes for the new employee.

Is the IRS more lenient with new businesses? "Not really," says Stumpf. "We try hard to educate small-business owners

CHARTS AND ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

through free seminars and publications on payroll-tax requirements before they start their businesses."

What if they missed the seminar? "Let's face it," says Stumpf. "We've all been an employee at one time and had payroll taxes withheld. Common sense tells you that if you have employees, you need to withhold and remit trust funds."

In addition to withholding for federal income taxes as well as Social Security and Medicare taxes, businesses must pay federal unemployment taxes, or FUTA taxes. Any state unemployment-tax rate applied to you is subtracted from the 6.2 percent federal rate, up to 5.4 percent. If you qualify for the full 5.4 percent credit, your FUTA tax rate could be reduced to 0.8 percent. FUTA taxes are paid to the IRS once a year when you file Form 940, Employer's Annual Federal Unemployment Tax Return.

Federal payroll taxes are just the beginning. Most states have their own income taxes, and in recent months a growing number of cities and counties have passed local income-tax laws.

States' employment-security divisions also have varying rates and wage bases for state unemployment taxes. Together, the federal, state, and local payroll-tax requirements can turn into a nightmare of deadlines, deposits, tax returns, penalties, rate changes, and reconciliations.

Help is around the corner, though. For do-it-yourself types, there's software such as DacEasy Accounting & Payroll, from DacEasy Inc.; Peachtree Accounting, from Peachtree Software; QuickBooks, from Intuit; and Simply Accounting, from Computer Associates International. Or you can pay your CPA to handle the paperwork.

Another option many small firms turn to is payroll accounting services. These print employees' checks, make the payroll-tax deposits, and handle the federal and state reporting requirements.

At what point does it make sense for a business to use outside help? Even small firms can afford a payroll service. Says Doug Schwab, sales director in Chandler, Ariz., for ADP, a nationwide payroll service: "In the Phoenix area, our EasyPay service has 3,000 clients, and the average number of employees is eight. In our experience, you're never too small to get help."

Rates vary across the country, but a company with one employee in Phoenix would pay $16 for ADP to process each weekly payroll, says Schwab. If the same company employed 10 people, the total cost would be $30.18, and a weekly payroll for 50 people would cost $68.50.

What should you be doing about payroll taxes? If you have an in-house payroll department, give your payroll people the training they need to stay on top of constantly changing rates and requirements. If you use a payroll service or a CPA, make sure your company monitors the payroll-tax reporting.

Finally, if you're ready to bring payroll in-house or plan to start a business and want to go it alone, call the IRS at 1-800-TAX-FORM (1-800-829-3676) and sign up for a free seminar on employers' trust-fund responsibilities.

While you're on the phone, ask for a copy of Publication 15, Circular E (Employer's Tax Guide) and Publication 15A (Employer's Supplemental Tax Guide). You'll need them. ■

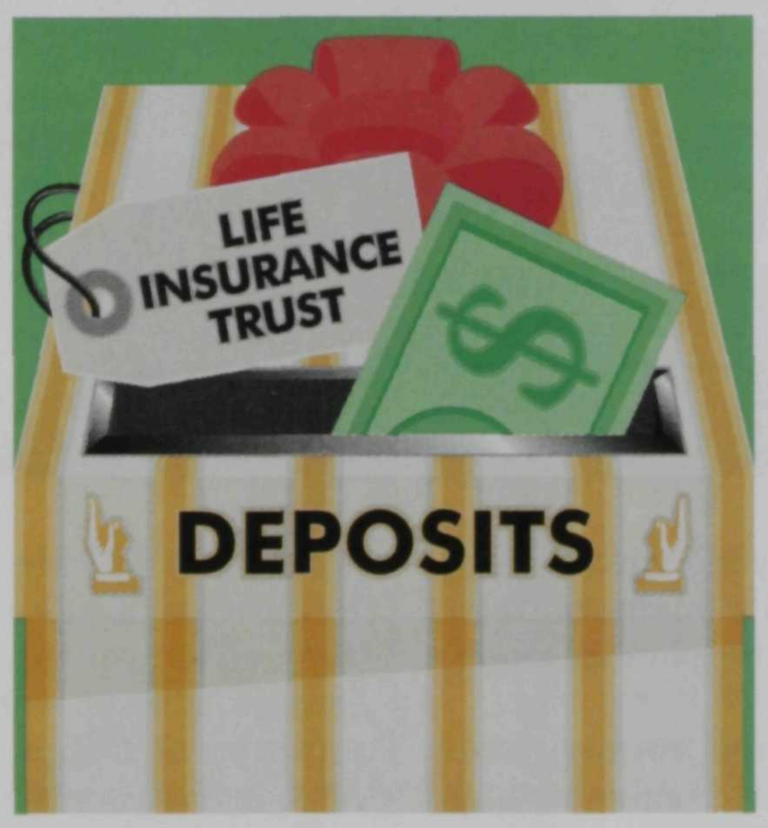
Gloria Gibbs Marullo is a CPA and financial writer in South Bend, Ind.

ESTATE PLANNING

Life-Insurance Trusts Can Reduce Taxes

While every taxpayer has a lifetime $600,000 exemption from federal estate taxes, some types of assets may be overlooked when adding up your estate. Life insurance, for example, may be included in your estate for tax purposes.

An $800,000 life-insurance policy on a father payable to his minor children would be included in his estate for tax purposes. (In general, federal estate taxes are imposed on life-insurance proceeds payable to anyone other than a spouse.)



If the father had $500,000 of various assets and an $800,000 life-insurance policy, his estate would total $1.3 million. If he leaves it all to his children, the federal estate tax on the amount over the $600,000 exclusion could amount to more than $250,000. (Even if the proceeds passed outright to his spouse tax-free, her estate ultimately would pay taxes on the remaining amount in excess of $600,000.)

Nonetheless, there is a way to keep the life-insurance policy out of the father's estate and avoid estate taxes. The policy could be owned by an irrevocable life-insurance trust. On the father's death, the trust would collect the $800,000 proceeds, which the children could receive tax-free.

But the trust must be maintained in strict accordance with IRS rules.

First, for maximum tax advantage, the father would make annual tax-free gifts to the life-insurance trust for the trustee to pay the premiums on the agreed-upon policy. An individual may make annual tax-free gifts of not more than $10,000 ($20,000 if the spouse joins in the gift); this is the maximum amount an individual may give to a person or an entity—such as a trust—each year without paying a gift tax or using part of his or her lifetime exemption.

To qualify as tax-free gifts to the trust, two important conditions must be met. First, the beneficiaries must have the right to withdraw the funds contributed, and second, the beneficiaries must receive notice of the contributions when they are made and of their right to withdraw them.

In practice, many trustees fail to notify beneficiaries as required, which can cause big problems. The IRS recently ruled that when beneficiaries did not receive proper notification, they did not have the immediate right of access to the funds, and thus the gifts did not qualify as tax-free contributions. As a result, the insured's lifetime $600,000 exemption from estate taxes was reduced by the amount contributed to the life-insurance trust.

For example, if the father contributed $10,000 a year for 20 years, the entire $200,000 would be subtracted from his lifetime $600,000 estate-tax exemption. Upon his death, his estate would be left with a $400,000 exemption. Even so, the proceeds would remain outside his estate.

Thus, the irrevocable insurance trust is a powerful estate-planning tool. But failure to follow the rules can be costly.

—Albert B. Ellentuck

The author is counsel to the Washington, D.C., law firm of King & Nordlinger.

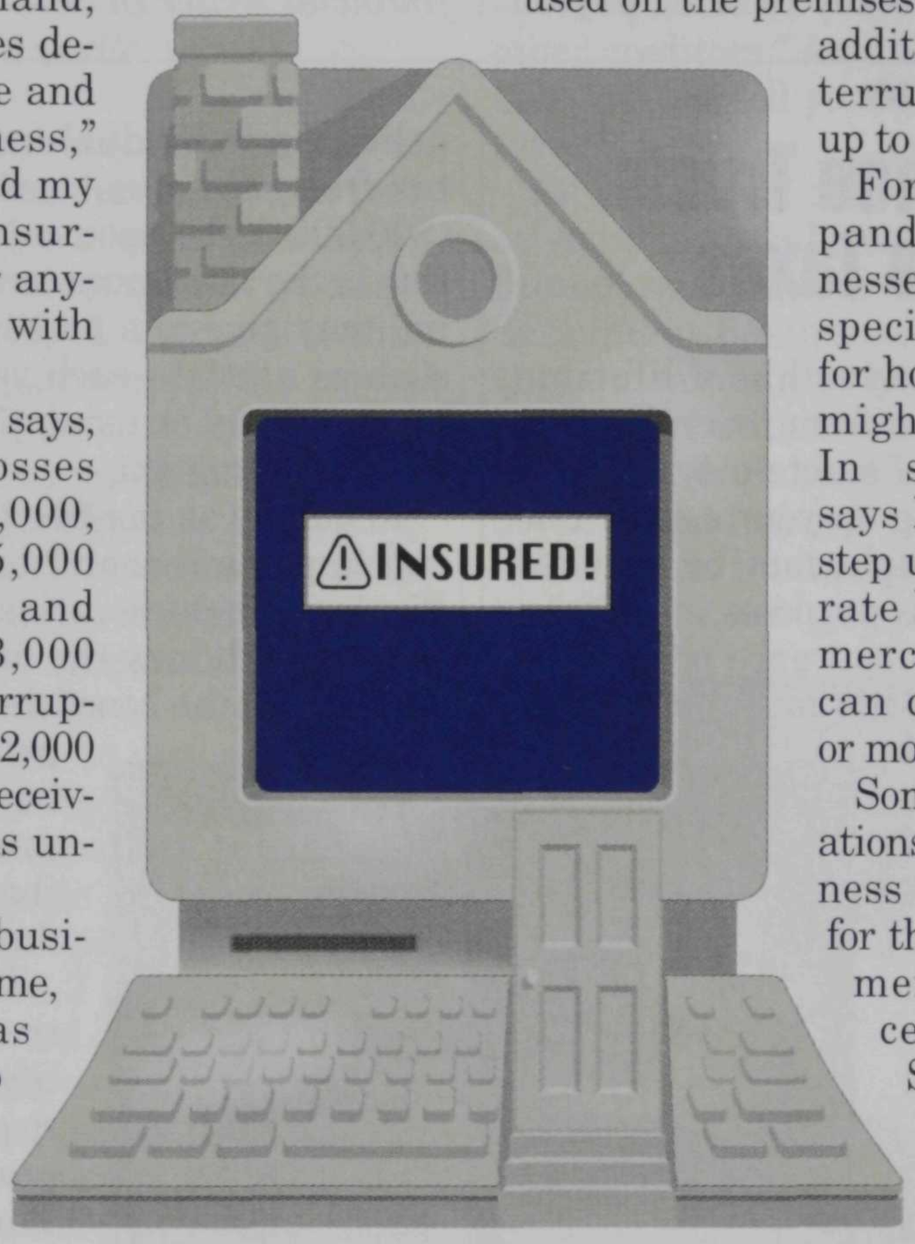
INSURANCE

Special Coverage For Home Businesses

Sue Rugge, who supplies information and research services for corporate clients, is one of an estimated 15 million Americans who operate businesses from their homes.

One day a brush fire ravaged Rugge's home along with hundreds of others in her area of Oakland, Calif. "The flames destroyed my home and my entire business," Rugge says, "and my homeowner's insurance didn't cover anything connected with my work."

All told, Rugge says, her business losses came to $80,000, including $25,000 in equipment and supplies, $33,000 in business-interruption costs, and $22,000 in lost accounts receivable that she was unable to trace.



She's back in business in a new home, and now she has not only backup computer files in another location but also another important safeguard for anyone with a home-based business: proper business insurance to supplement her homeowner's policy.

Insurance companies' surveys show that the vast majority of home-business owners around the country have no special coverage for their businesses because they mistakenly believe they are covered by their homeowner's or renter's policies.

"Most homeowner policies include some incidental business-property items," says Sean Mooney, senior economist for the Insurance Information Institute, based in New York City. But this coverage is minimal, he says. You might get coverage for some limited business equipment up to $2,500, which is far too little for most home-business operations.

"The next step up," Mooney says, "is to add a business endorsement to your homeowner's or renter's policy." Many insurance companies are coming out with home-business endorsement plans that cost less than $200 a year.

The HomeWork endorsement offered by Chicago-based CNA Insurance Cos. is a good example of what's new on the market. "At a cost of $175 a year, the endorsement covers all business-property items," says Kevin J. O'Boyle, CNA's senior product-development specialist, "up to your personal-property limit plus up to $10,000 worth of business equipment used off the premises." And you can get additional business-interruption coverage of up to a year.

For some rapidly expanding home businesses, however, these special endorsements for homeowner policies might not be enough. In such instances, says Mooney, "the next step up is to get a separate business or commercial policy, which can cost $500 a year or more."

Some national associations are making business policies available for their home-business members. The recently organized Small Office Home Office Association, based in Reston, Va., has a policy underwritten by ITT-Hartford Insurance Co. that covers business interruption, temporary office rental, all equipment and records, storage, warehousing, and off-site equipment usage. The coverage costs $300 to $500 a year.

Home businesses involving crafts are often hard to insure because of the expensive equipment and costly inventory typically involved. The American Phoenix Corporation of Connecticut, in Hartford, has policies designed to cover home-crafts businesses. Coverage includes property loss or damage, liability, and off-premises, in-transit coverage. Annual premiums range from $250 to $750.

Some final tips from CNA's O'Boyle: "When checking out home-business coverage, talk to someone who knows all about business and commercial insurance, not just the personal lines. And don't try to hide anything, thinking you're going to get a lower premium. Make a full disclosure of what your business is and how it works."

—Peter Weaver

The author is a personal-finance writer in Bethesda, Md.

RETIREMENT PLANS

Time Is Running Out On 401(k) Amnesty

Businesses that have underfunded or stopped funding their 401(k) employee savings plans have until Sept. 7 to get right with the government and their workers. That's the last day the U.S. Labor Department will accept repayment of late 401(k) funds without monetary and legal penalties.

The amnesty program, launched in December by Labor Secretary Robert Reich, came about as a result of more than 600 cases the Labor Department is investigating for delinquent deposits of workers' funds into 401(k) savings plans.

Labor Department officials emphasize that most employers handle their workers' 401(k) funds properly, depositing them within the current 90-day time limit. The worst offenders are small companies in trouble. They either are experiencing short-term cash-flow problems or are in considerably worse shape, according to the agency.

"The purpose of the amnesty program is to let companies with problems let the government know of their intentions so they can straighten themselves out without additional penalties," says Assistant Labor Secretary Oleana Berg. "Most of the companies we are dealing with are not attempting to do anything wrong."

In fact, the Labor Department estimates that less than 1 percent of the 140,000 401(k) plans accepting employee contributions are delinquent in making payments.

In response to the delinquencies, however, the Labor Department has proposed a rule that would require employers to deposit employees' 401(k) money as quickly as they now must transfer Social Security funds. That ranges from 24 hours to almost a month, depending on the size of the company.

—Lisa Holton



The author is a personal-finance writer for the Chicago Sun-Times.

INVESTING

What's Your Mutual Fund Really Costing You?

By Randy Myers

No doubt about it, mutual funds are a convenient way to invest in the stock and bond markets. And they're often economical. But not always.

Knowing which ones are economical is important; the costs of a fund can make a big difference in how much you earn. Over a period of years, high costs can pare hundreds, thousands, even tens of thousands of dollars off the value of your investment account.

Consider two no-load funds, one whose costs equal 2 percent of its assets, the other with costs of 0.5 percent. Assume both generate gross earnings—or profits before expenses—of 8 percent annually. After 10 years, an investment of $10,000 in the high-cost fund would be worth $17,900, while an equal investment in the low-cost fund would be worth $20,600.

Why? Because the net return of the high-cost fund is 6 percent, while the net return of the low-cost fund is 7.5 percent.

John J. Brennan, president and CEO of the Vanguard Group of mutual funds, which is widely noted for its commitment to low costs, notes that of the three variables that affect investment results (risk and return are the other two), cost is the only one you can easily control.

"You can sense what your risk will be based on the type of investment, but it's impossible to forecast what the return will be," Brennan says. "All other things being equal, why not pay less while taking the same risk for the same prospective return?"

To be sure, lower costs don't always lead to higher investment returns. Some high-cost funds have terrific performance records, but they are the exception.

You can find a fund's expense ratio (its annual operating and marketing expenses expressed as a percentage of its assets) in its prospectus, the legal sales document the fund is required to provide to prospective investors. The ratio reflects, among other things, expenses for providing shareholder services, supervising the fund's operation, directing the investment of the fund's assets, and providing a profit to the fund's adviser.

For the nearly two-thirds of funds that charge them, the ratio also reflects any annual 12b-1 fees levied on shareholder assets each year to help pay for marketing and distribution of the fund, typically through a commissioned sales force. (The 12b-1 fees are named for the section of the Investment Company Act of 1940 that permits such charges for marketing and distribution.)

While performance figures published for mutual funds take expenses into account, they do not reflect another potential cost to shareholders—the one-time sales loads, or commissions, that some funds charge investors every time they purchase shares (in the case of front-end loads) or sell them (back-end loads).

Front-end loads typically range from 4 to 6 percent of the purchase amount. If you pay a 5 percent front-end load on a $1,000 investment, the fund actually invests only $950 of your money. You'd have to earn at least 5.3 percent on that investment in its first year just to break even.

Back-end loads, or "deferred sales fees," usually start at levels comparable to front-end loads, but they often decline by 1 percentage point per year thereafter until they disappear. That makes them palatable to people who keep their funds for many years but costly for those who redeem shares or swap them into other funds before the fees expire.

Funds that charge sales loads frequently argue that they give shareholders better investment management or better service. But there simply hasn't been conclusive evidence to support the first claim, and quality of service is a subjective matter—smart shoppers should ask what extra services they're getting and then decide if they're worth the expense.

In addition to sales loads and operating expenses, mutual funds' performance can be affected by hidden costs. The most significant of these are the commissions all mutual funds pay to brokers for buying and selling securities for them (just as you would pay a broker to buy or sell stock for you).

These costs aren't broken out in fund documents, but they are reflected in the fund's total return figures, and they present another hurdle to outstanding performance.

Naturally, a fund that buys and sells securities frequently will incur higher transaction costs than a comparably sized fund with a buy-and-hold strategy. The former is also likely to generate more short-term capital gains, which, for shareholders, are taxed as ordinary income, not at the more favorable rates available for long-term capital gains.

You can gauge the pace at which a fund buys and sells securities by looking at its turnover rate, which measures sales and purchases of securities as a percentage of the fund's average assets.

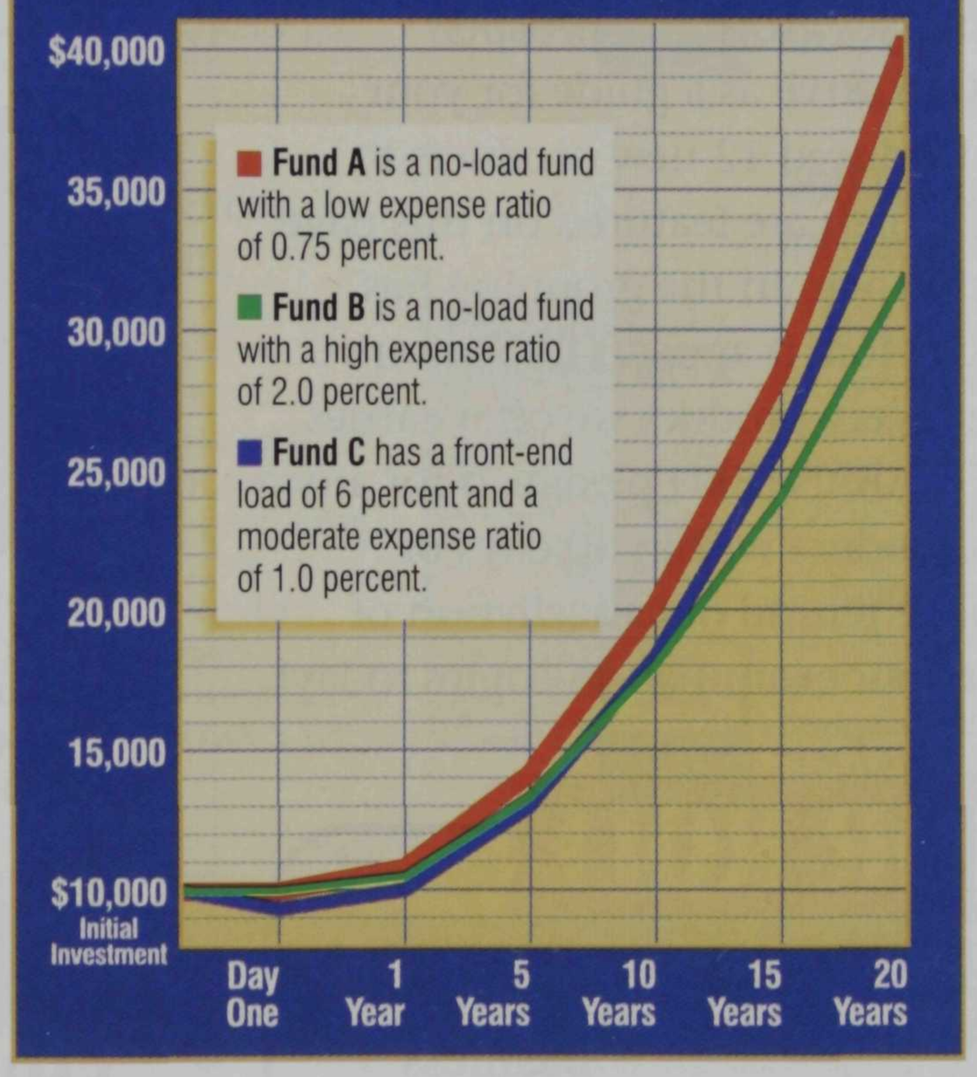
The average domestic stock fund has a turnover rate of about 81 percent, the average domestic bond fund 107 percent, according to Morningstar, Inc., an investment-research firm in Chicago. The higher the turnover rate, the higher, in general, the transaction costs.

In the end, of course, choosing a mutual fund with low costs won't guarantee high returns. "But unless you can forecast that the fund you pay higher expenses for will outperform by enough to make up for those expenses," says Brennan, "the lower-cost fund will give you a head start against the competition in the investing sweepstakes." NB

Randy Myers is a financial writer in Dover, Pa.

How Mutual Funds' Costs Can Affect Returns

The effects of costs on mutual funds' performance at specific times over a 20-year span are illustrated with the following three theoretical funds. The examples assume each fund earns 8 percent per year before expenses and sales fees. Tax consequences are not reflected.



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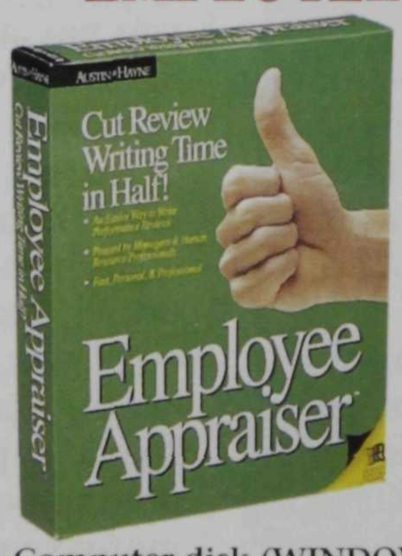
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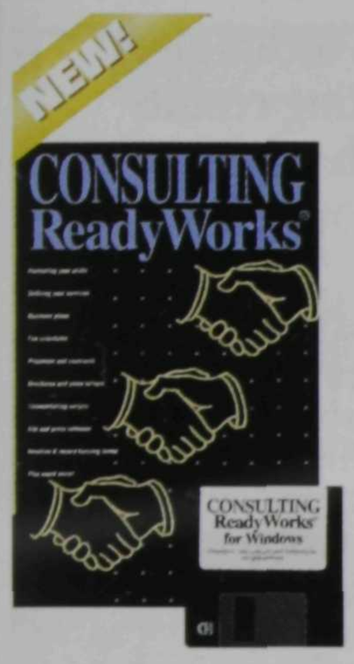


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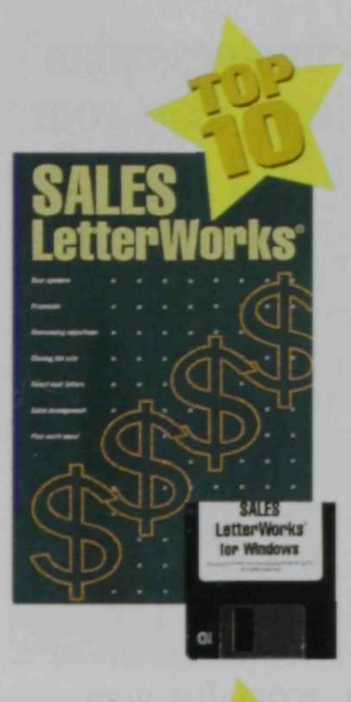
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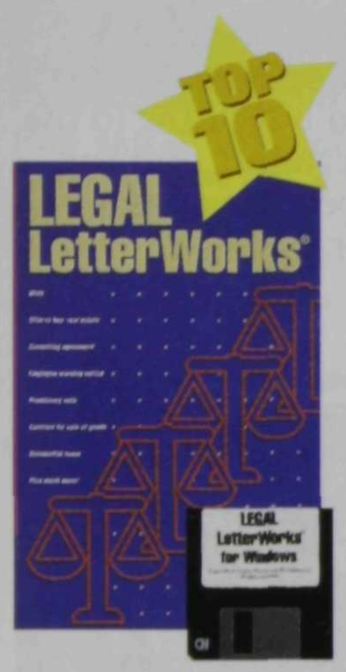
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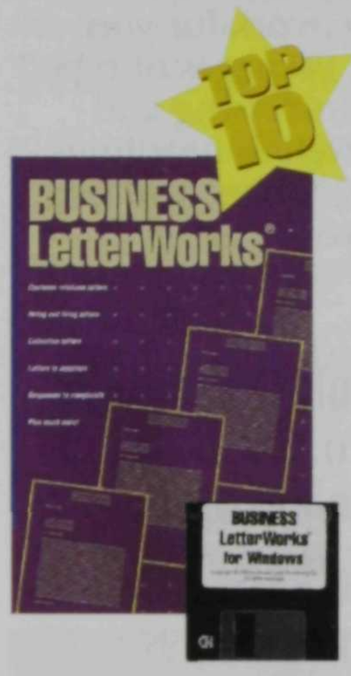
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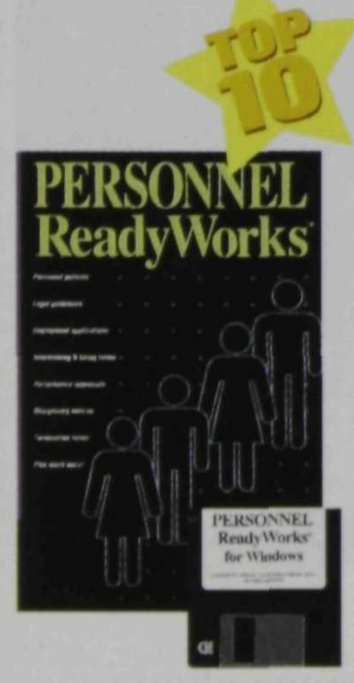
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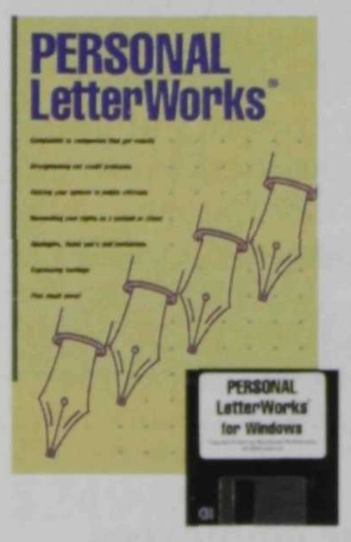
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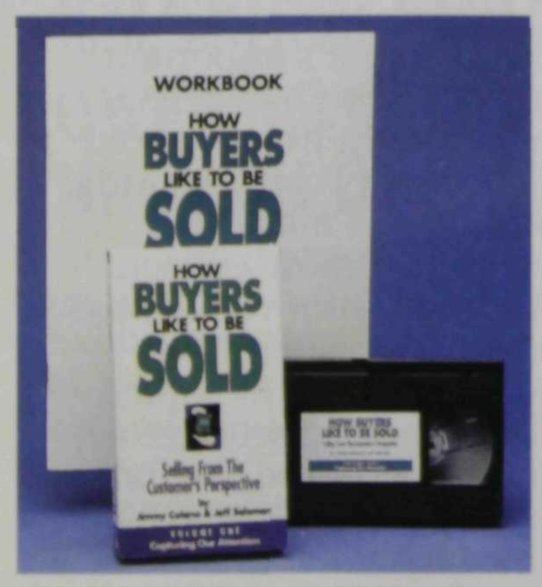
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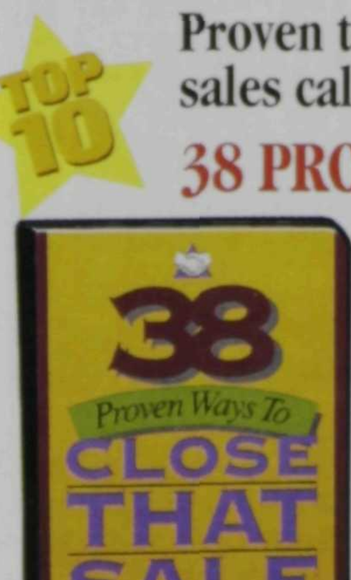
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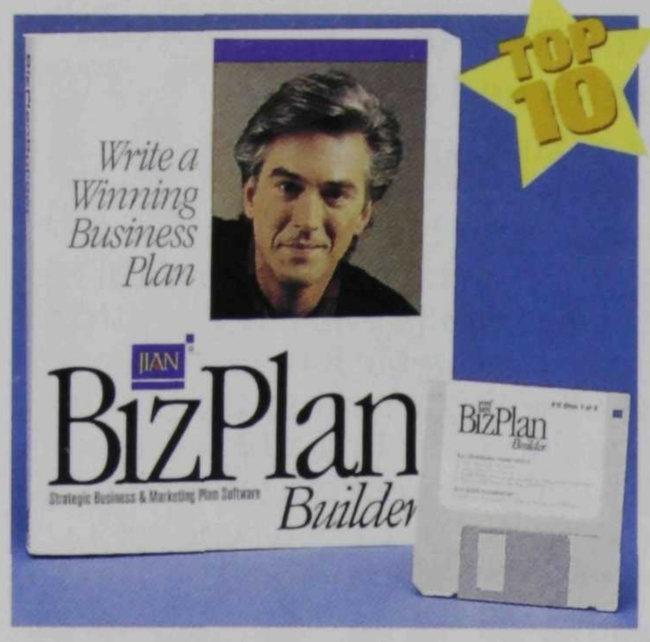
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Boost your sales by mastering the art of the "close". This powerful video will help you overcome every potential buyer objection whether you're on the retail floor, the road, or in the office. Translate your product or service features into "must-have" benefits that will excite your customers... and help you land the big ones.

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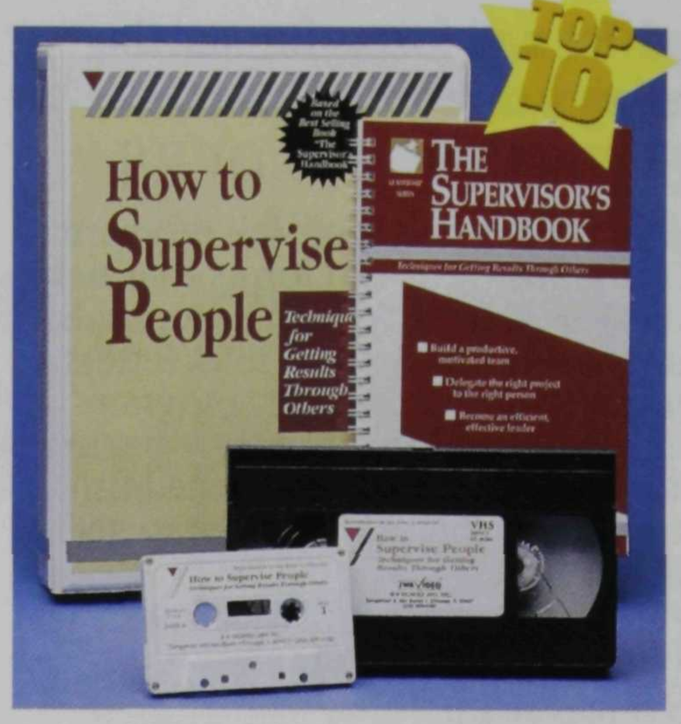


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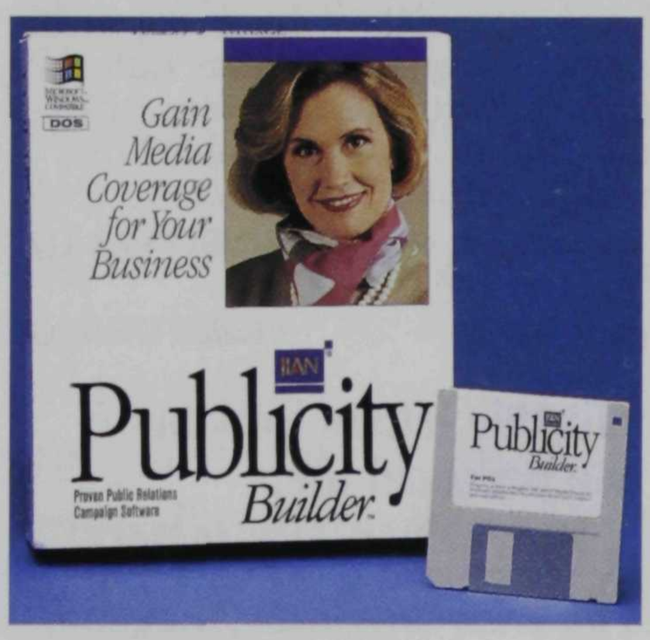


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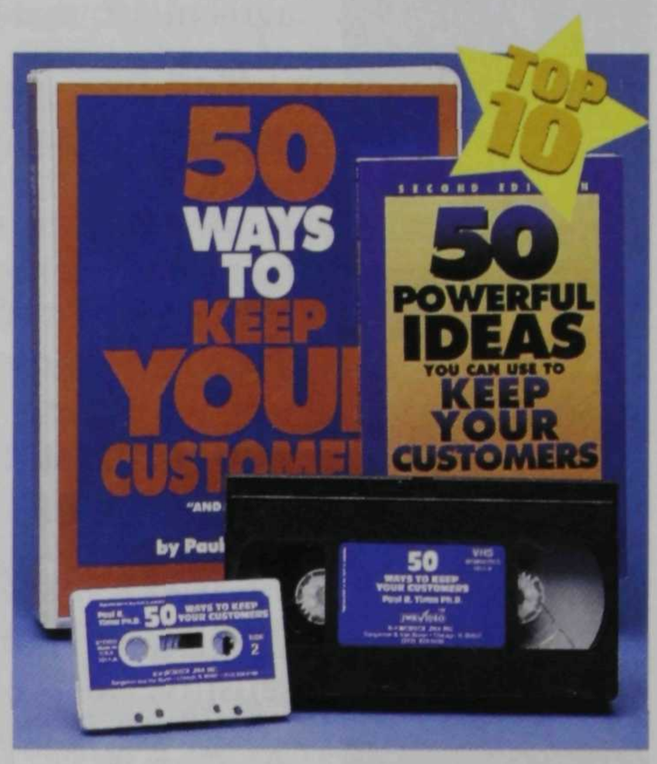
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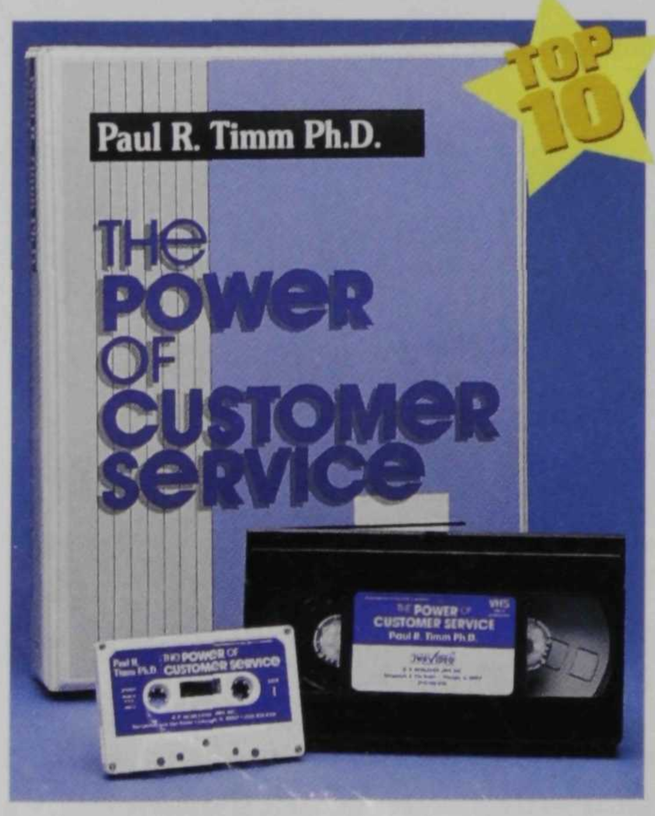
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Help your employees understand the secret to getting repeat business.

THE POWER OF CUSTOMER SERVICE

Customers often buy because of the quality of the service, rather than the quality of the product. Show employees how to deliver the service that creates satisfied customers and turns around disgruntled customers. Help them deal with customers courteously even when they're under pressure. Demonstrate how to communicate concern and competence. Put your company on the inside track to consumer confidence.

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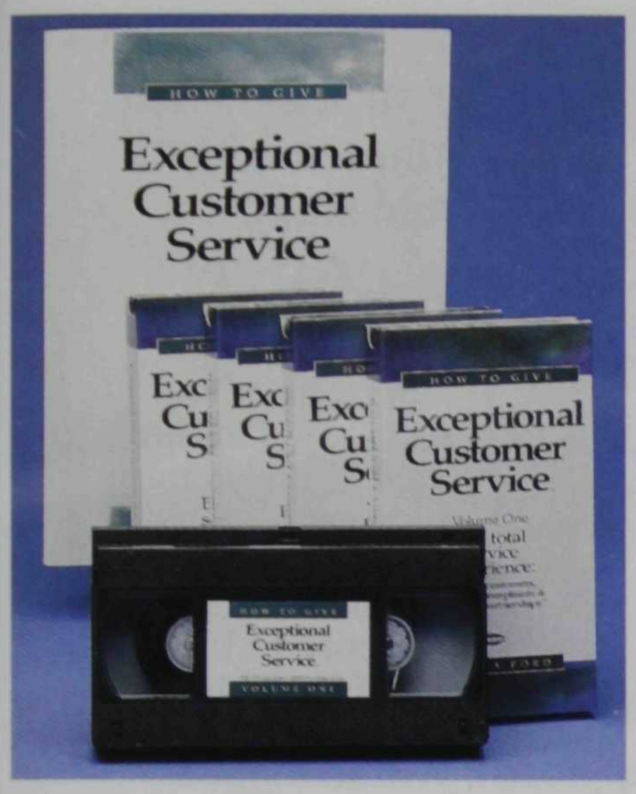
Learn why it's important to place your own telephone calls, how to avoid unnecessary call screening, and how to make your voice mail more efficient. Also learn innovative ways to prevent callers from wandering off the topic, who calls back if you're disconnected, how to properly answer the telephone, and why it's important to say, "thank you for calling" when the conversation is completed.

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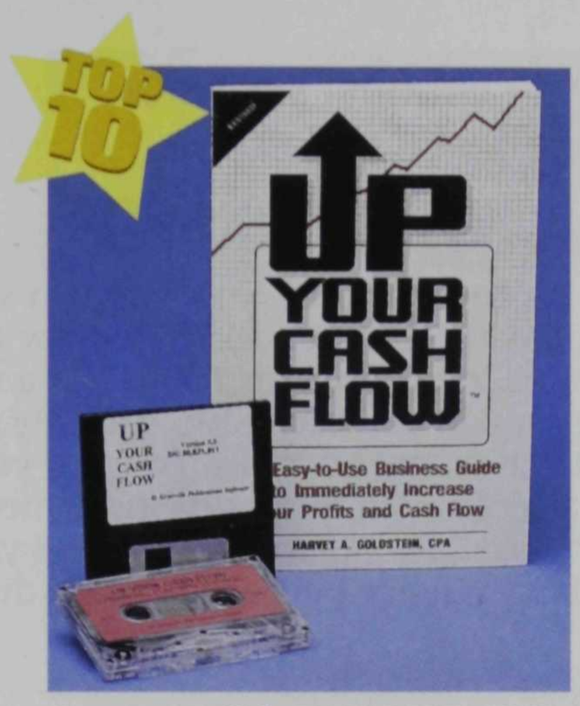


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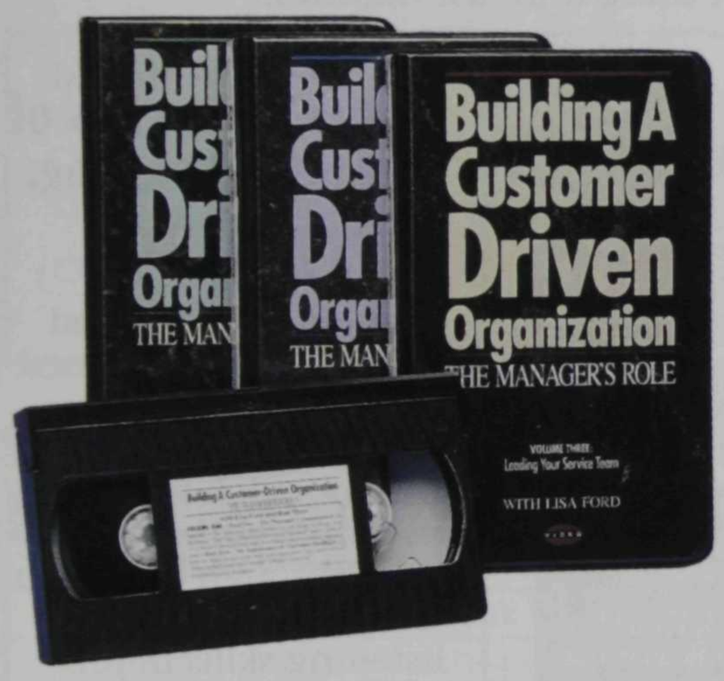
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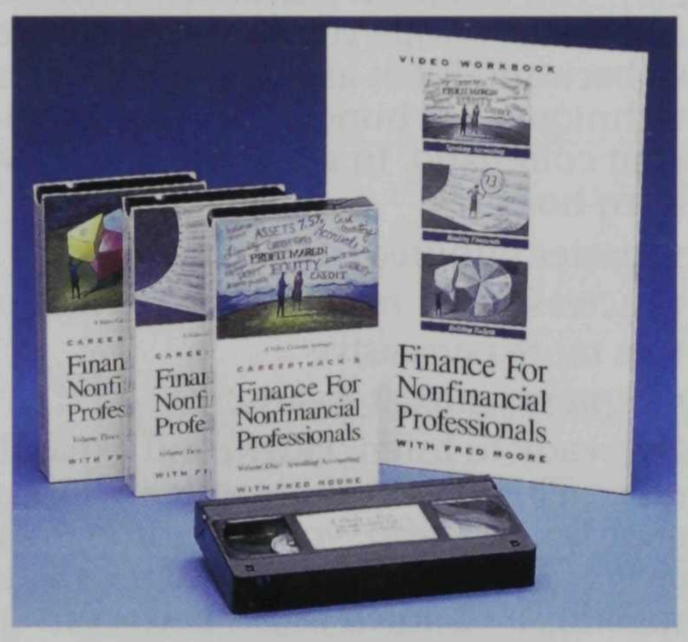


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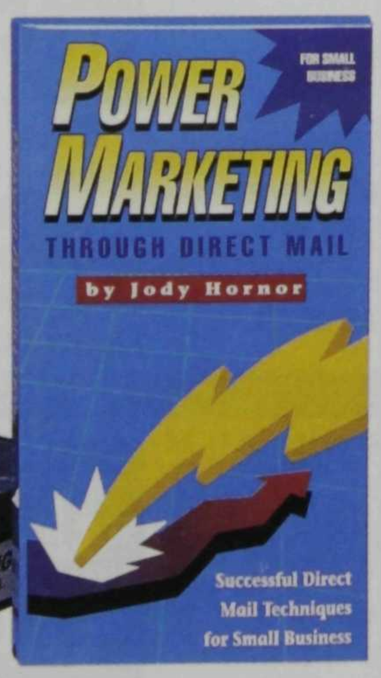
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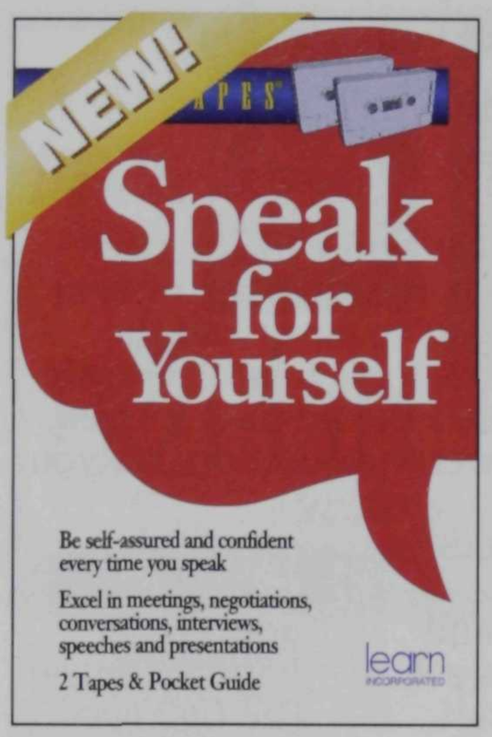
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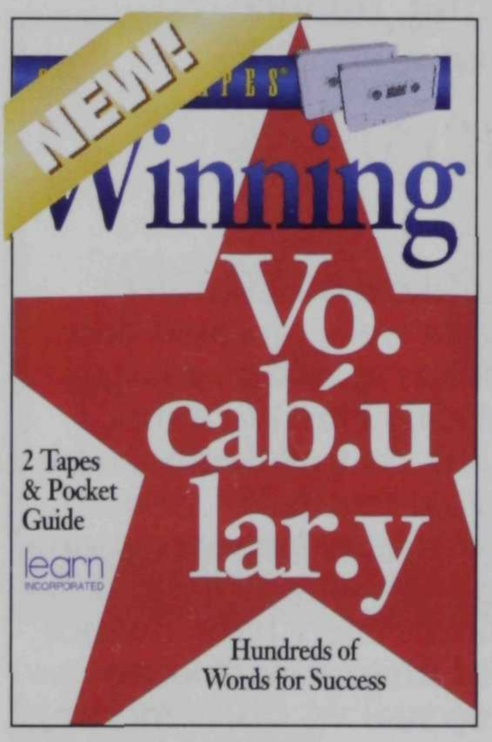
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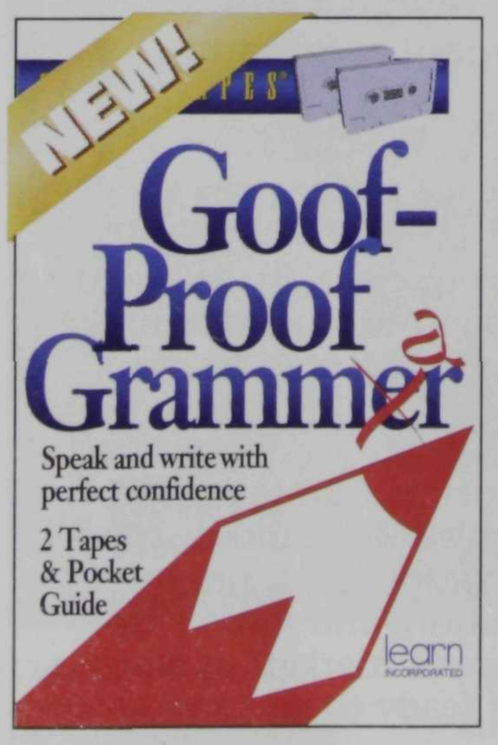
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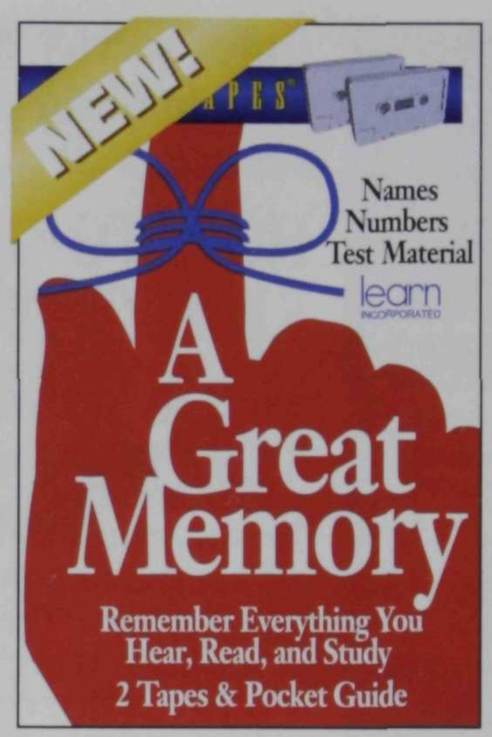
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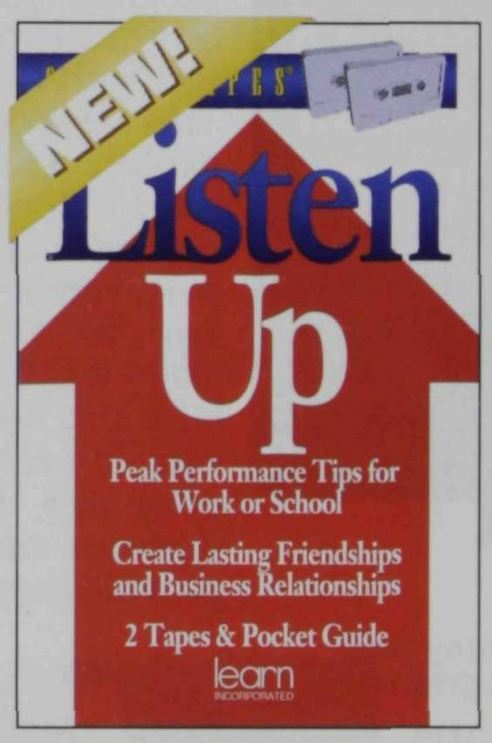
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Discover how to remember what you read, hear, and study.

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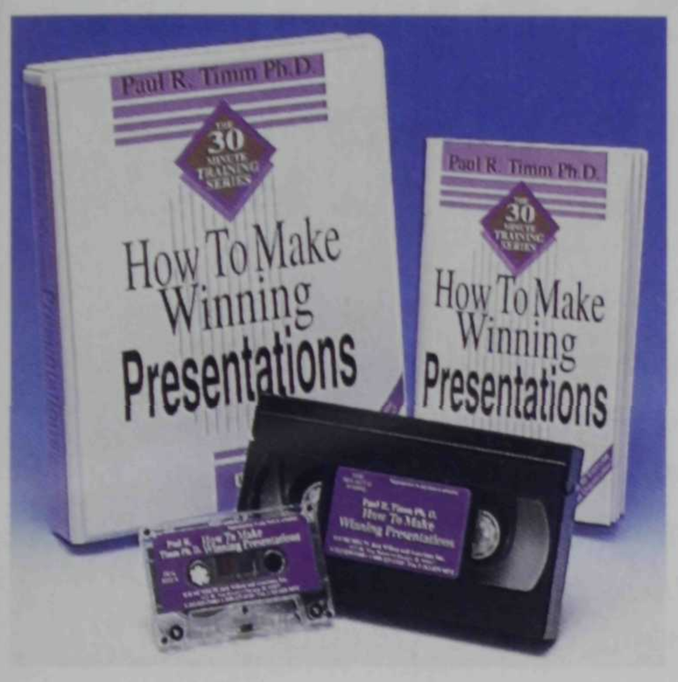
Everyone likes a good listener. They're valued as friends. They're successful in business. And they're quick to see new opportunities. Our breakthrough approach lets you activate your listening skills in less than an evening—and tap into more of the guidance and information that are around you each day. Know *what* questions to ask and *how* to ask them, how to interpret body language, and how to be a better manager.

Discover how to listen responsively—using your eyes, your ears, and you heart—so people will open up to you in new ways. You'll remember far more of every conversation, meeting, or conference you attend...and gain exceptional knowledge and understanding in every situation.

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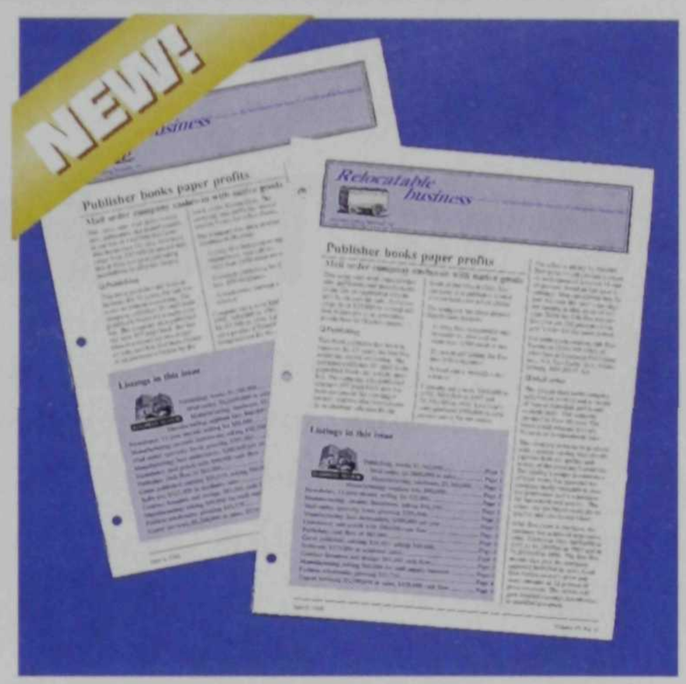
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Where I Stand



PHOTO: GARY KIEFFER

On The President

President Clinton took office in 1993 promising to help small businesses, which he said played a pivotal role in the U.S. economy. These questions seek your views on how your firm has fared under the Clinton administration.

Results of this poll will be forwarded to administration officials and congressional leaders and will be published in the September issue of *Nation's Business*. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 **Are you satisfied with President Clinton's level of commitment to issues important to you and your business?**

1. Yes
2. No
3. Undecided

2 **Have the Clinton administration's policies in general been friendly to small business?**

1. Yes
2. No
3. Undecided

3 **Has the Clinton administration made it easier for your business to comply with federal rules?**

1. Yes
2. No
3. Undecided

4 **Have the Clinton administration's tax policies been helpful to small firms?**

1. Yes
2. No
3. Undecided

5 **Do you believe a second term for President Clinton would help your business?**

1. Yes
2. No
3. Undecided

Send Your Response Today!

POLL RESULTS

Readers' Views On Contractors

Most respondents to a *Nation's Business* poll said they use independent contractors in their businesses and consider use of these nonemployees an important element in deciding whether to expand their firms.

However, a third of those who responded to the Where I Stand poll in the May issue said they have at least once forgone the use of independent contractors to avoid dealing with the Internal Revenue Service.

The IRS has strict rules on classifying workers as independent contractors rather than employees. In many instances, workers who were thought to be independent contractors have been reclassified by the IRS as employees because they didn't meet IRS criteria. (See the related articles in the December 1995 and March 1996 issues.)

The independent-contractor issue, especially the IRS rules, topped small-business concerns among those who attended the 1995 White House Conference on Small Business.

Legislation to reform the laws and regulations on independent contractors—and to clarify the rules on classification—is pending in committees in both the House and the Senate.

Here are the complete results of the survey:

INDEPENDENT CONTRACTORS

Do you use independent contractors in your business?

Yes 77% No 23%

What criteria do you use to classify the persons you hire as independent contractors?

"Safe-harbor protection" (a reasonable basis for treating the worker as an independent contractor, submission of all required federal tax returns, and having no employee doing similar work) 24%
The 20-part Internal Revenue Service test 24
Both 20
Not applicable 32

If you use independent contractors, has the Internal Revenue Service ever questioned your classifications?

Yes 15% Not applicable 20%
No 65

If the IRS has audited your business, what was the result?

No change was made regarding my independent contractors 21%
Some or all of my independent contractors were reclassified as employees, but no penalties and/or back taxes were assessed 2
Some or all independent contractors were reclassified, and the IRS assessed back taxes and/or penalties 6
Not applicable 71

Have you ever forgone using independent contractors to avoid dealing with the IRS?

Yes 33% No 67%

How important a consideration is use of independent contractors in deciding whether to expand your business?

Very important 44% Somewhat important 24%
Unimportant 20 Not considering expansion 12

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Free-Spirited Enterprise

By Michael Barrier

Winning At Cards

We asked a few months back if any of you used out-of-the-ordinary business cards—cards that tell the recipient more about you than a conventional card would.

You sent us a gratifyingly large—and varied—collection of business cards, more than we can describe here. While perusing them, we realized just how attention-getting a clever business card can be.

One example is the card we got from Thomas J. Linnemeyer, senior vice president with Fort Wayne National Bank, in Fort Wayne, Ind. It looks like a tiny check, with Linnemeyer's name in the spot where an account holder's name would be on a regular check, and "100% Attention to Your Needs" is written in the space where the dollar amount would usually appear.

Other people use their business cards to send messages about their companies. We received a number of folded-over cards that list a company's services, or perhaps reproduce its mission statement, somewhere on the card.

And how about a business card that doesn't just tell you about a company but actually provides one of its services? We got such a card from Michael B. Smith, president of Topline, Inc., in Norcross, Ga. Topline is, as Smith says, "a sales and marketing firm that specializes in prepaid phone cards"—and his business card is just such a card, providing five minutes of long-distance calls.

Topline sells this type of card to other companies, too; Smith sent along photographic proofs for the five-minute cards he was making for two real-estate firms. Such cards are not cheap, of course—Topline sells 1,000 five-minute cards for $1,360, so you'd want to give them to serious customers—but they do make an impression. Better yet, since the recipient can buy additional time for the card beyond the initial five minutes, there's a good chance that your name and phone number will always be in your customer's wallet.



(Still better, when someone adds calling time to the business card you've given them, you get a 20 percent commission; Smith tells us that he just got a $1 commission himself when someone added time to one of his business cards.)

Our only problem with these business cards is a severely practical one: We tend to punch holes in the business cards we want to save so we can insert them in our Rolodex, and it's hard to do that with a phone card that is made of stiff plastic like a credit card.

Other companies use their business cards to set a tone—to say, usually, "We don't take ourselves too seriously." As we write, we're looking at a set of cards from Logo Tech, a Tucson, Ariz., company that converts sports teams' logos and other designs to computer language so they can be embroidered automatically on things like sweat shirts and caps. The cards identify members of the staff as, variously, "The Logo Khan," "The Logo God," "The Digitizing Queen," and so on. Sounds like a fun place to work.

We also got a note from Alora Dunlap, whose card identifies her as the "Administrative Czar" for Sophisticated Circuits, a Bothell, Wash., developer and manufacturer of peripheral equipment for Macintosh computers. "As you can see," she wrote, "I am more than an office administrator. If there is a problem, everyone runs to me for the answer. Control is good!"

Gulp! We were going to suggest to Alora that "Administrative Empress" might be an even better title, but, on second thought, "Administrative Czar" may be just about right.

One of our favorite cards is not, strictly speaking, a business card. It comes from Denise Haywood, daughter of a candidate for the Texas state Senate, and it identifies her as exactly that: "Daughter."

The possibilities here are thought-provoking. Family units are, after all, small businesses of a sort, and everyone in them has responsibilities that usually can be summed up in one or two titles, like "Father," "Mother," "Husband," and "Wife." If everyone in the family carried business cards of that kind, would it make them more aware of their roles? And what if misbehavior entailed a demotion of sorts—from, say, "Son" or "Daughter" to "Spoiled Brat" or "Icky Teenager"?

That's a good place to stop. You know what would happen: Such cards would become status symbols among the playground set and the mall rats. Your only recourse would be to start handing out cards designating the recipient "Perfect Child." You can bet they'd never show *those* cards to their friends.

Losing On The Road

Looking through all those business cards has sparked our curiosity about other aspects of our readers' business lives. Many of you distribute your business cards mainly while you're on the road, and we know that in most cases travel for small-business people is a different sort of experience than it is for the folks whose biggest worry may be whether there's enough Chivas Regal in the mini-bar.

To test that theory, we'd like to hear about your travel experiences. What are the problems or irritants that you encounter most frequently? What could the airlines, hotels, and car-rental companies do to smooth out your trips? What good ideas can you share with other small-business people? What information can we provide, here in *Nation's Business,* that could make business travel less of a trial?

Let us know. Write to us at Free-Spirited Enterprise, *Nation's Business,* 1615 H Street, N.W., Washington, D.C. 20062-2000; or send us a fax at (202) 463-3102. NB

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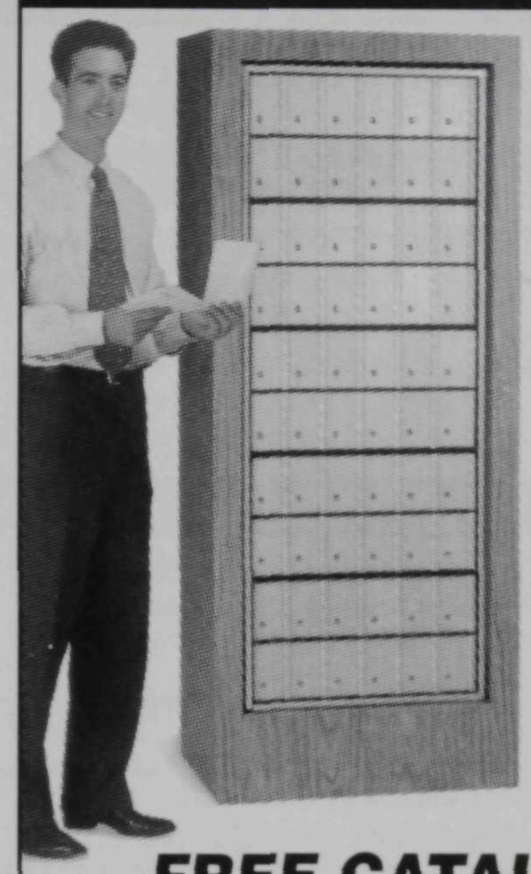
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By Laura M. Litvan

TECHNOLOGY

Finding An Internet Home

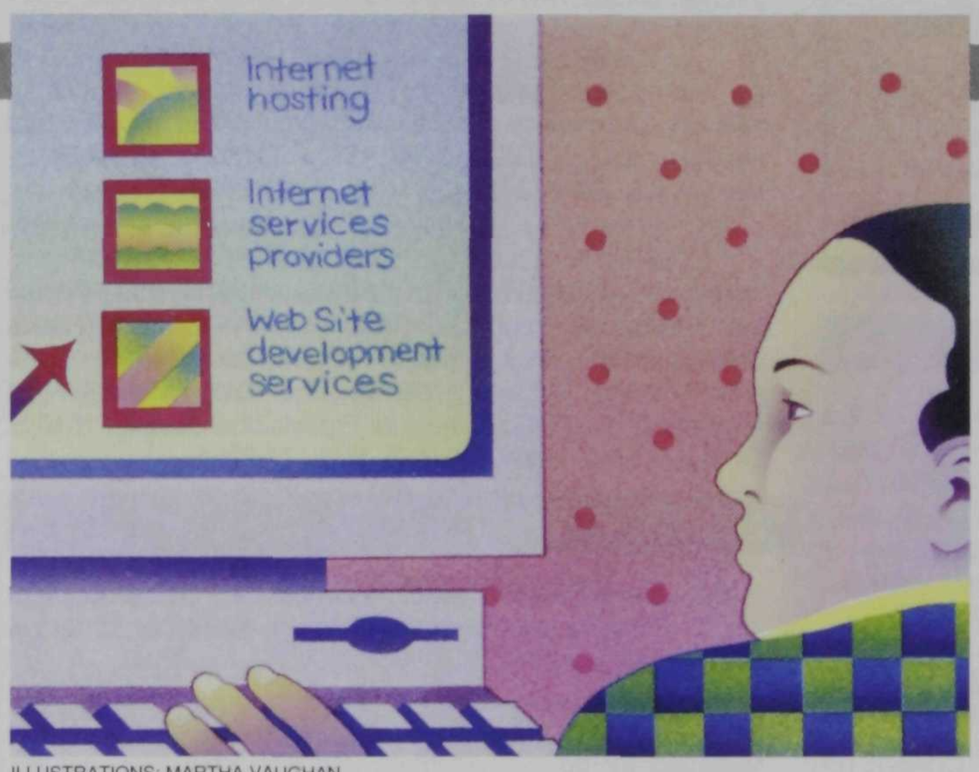
I am interested in setting up a site on the Internet that will provide informational materials for children and will also market books, posters, and other items for youth. I frequently use the Internet, but I may need some outside help to set up my own pages on the World Wide Web. Where can I go for guidance?
R.G., Meadville, Pa.

Small-business owners who want to establish an on-line presence have an array of options, including going it alone by learning one or more of the computer languages needed to create "pages" for the Internet's World Wide Web.

Though there are several books on the subject, many entrepreneurs would rather spend their time building their businesses than reading up on the Internet. Companies' most common approach has been to use an outside vendor, says Robert Allen, managing partner of Media Modem, in Westport, Conn. The advertising firm has designed Internet home pages for AT&T Corp., J.C. Penney Co., and others.

An outside vendor could cost as little as $100 or $200 a month, Allen says, but the cost can go into the thousands if a company has a large site (a large number of Web pages) or wants extra services such as electronic-mail accounts or help with fashioning original home-page graphics.

The best place to find a list of such providers is the Internet, Allen says. Use one of the available search engines—Web sites that enable you to search the Internet by key words. One popular search engine is Yahoo *(http://www.yahoo.com/Computers_and_Internet);* simply search for key words such as "Internet hosting" or "Internet services providers." You can also conduct a similar search in one of the Internet's business directories, such as NYNEX Information Technologies' BigYellow *(http://www.bigyellow.com).* You should find dozens of firms that you could hire to help set up a Web site.



ILLUSTRATIONS: MARTHA VAUGHAN

Other companies in the fray or about to enter it include major players in the telecommunications industry, including MCI Corp., AT&T, and some of the regional Bell telephone companies, such as NYNEX Corp. and Bell Atlantic Corp. (which in April announced a proposed merger).

A spokesman for Bell Atlantic, which serves local phone callers in your region, says his company will begin to offer Web-site-development services to businesses later this year.

A company in Pembroke Pines, Fla., that provides Web services, Internet Gateway Connections, helps small firms design Web pages and place them on the Internet. Its lowest fee is $230 for initial setup and design of a home page, then $86 a month for Internet access and maintenance of the site, says Jon Wade, the company's manager of Web-site development. Fees can climb into the thousands of dollars, however, if a client has a large Internet site or wants extra services.

Like many Web-services providers, Wade's company ensures that a client's home page can be easily tracked down by Internet users who use key-word searches to find sites. It also offers the option of participating in an increasingly popular venue for small firms, a "cybermall"—a central location on the Internet, operated by a provider, and offering consumers one-stop shopping among all its clients. Internet Gateway's page currently offers consumers access to Web pages of clients selling everything from flowers to electronic goods.

To understand what a "cybermall" is, you may want to view Internet Gateway's home page on the Internet at *http://www.igc.net.* Of course, before settling on a vendor, be sure to shop around for the best deal. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number. Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

GETTING STARTED



Bayou Buying

My sister wants to open a shop that specializes in Cajun-influenced goods, including artwork, furniture, food products, and books. I'm helping her to locate suppliers. Do you have any advice for us?
D.B., Plymouth, Wis.

For good leads on products, try the *Louisiana Catalog,* a mail-order catalog that markets a wide variety of Cajun-inspired books, musical instruments, crafts, and other goods. For a free copy, call the Louisiana Catalog Store, in Cut Off, La.; 1-800-375-4100.

For names of food-product suppliers, get a copy of the *Louisiana Agricultural Products Directory,* produced by the state's Department of Agriculture and Forestry. Call (504) 922-1280 for a free copy.

Taking A Shine

Where can I get background information on starting a self-serve carwash?
B.R., Atlantic Beach, Fla.

The International Carwash Association sells a $75 "start-up kit," containing industry statistics, a list of carwash-related product suppliers, and tips on financing. You can contact the Chicago-based group at (312) 321-5199. ■

FINANCE

Going Public

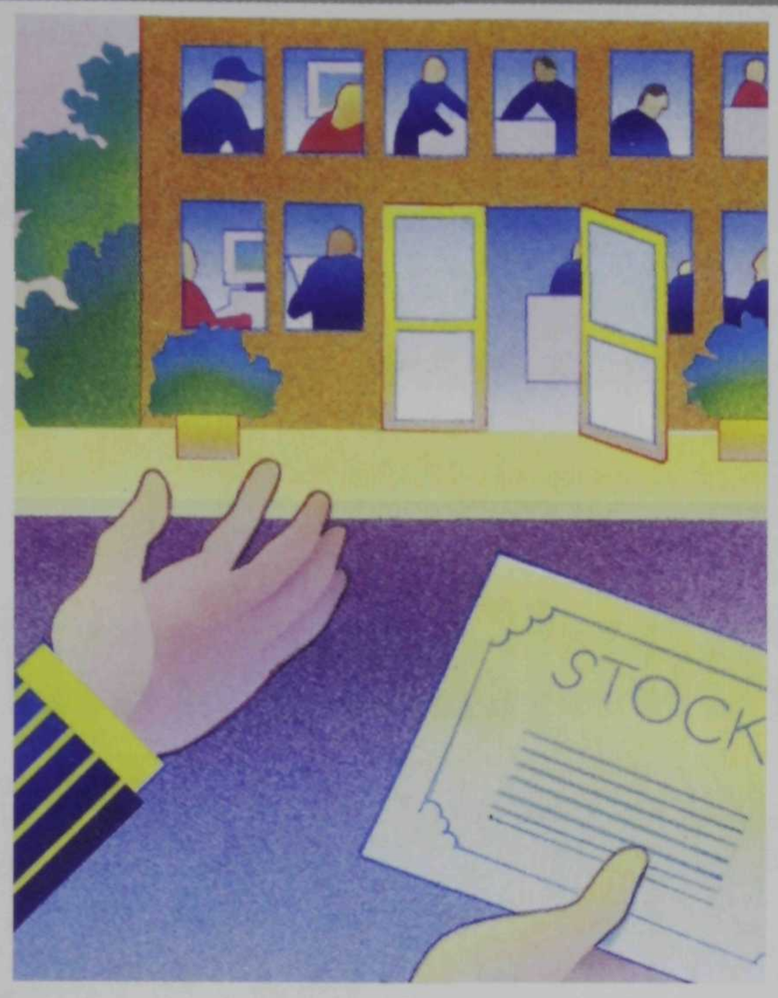
Our privately held manufacturing company is small (about $3 million a year in sales) but successful. We would like to expand our operations into a second product line, perhaps using an initial public offering of stock to raise the $2 million to $3 million we would need. Are there any useful guidelines available for companies that are considering such a step?
R.B., West Caldwell, N.J.

There are many free or low-cost resources that can help you learn more about going public. Among them:

■ *The Entrepreneur's Guide to Going Public*, by James B. Arkebauer and Ron Schultz (Upstart Publishing, $19.95), explores the advantages and disadvantages of making an initial public offering (IPO). To order a copy of the 350-page book, call the publisher at 1-800-235-8866.

■ The National Association of Securities Dealers, which operates the Nasdaq securities market, sells a 100-page, $30 book, *Going Public*. To order, call (301) 590-6142.

■ Some major accounting firms offer free books or pamphlets on the subject. For example, Price Waterhouse offers *The Going Public Handbook*, a 100-page guide on practical considerations for a company offering



stock for the first time. Contact a Price Waterhouse office near you.

Your research will quickly show you the numerous advantages of a successful public stock offering, including an infusion of capital to finance business expansion as well as potential riches for company founders who may see their shares of the company increase in value.

But there are some disadvantages, too, such as required public disclosure about operations and finances and the sudden sharing of control with outsiders. (For some real-life experiences about the advantages and disadvantages of going public, see "Tales Of Caution In Going Public," in the June issue. Also see "Are You Ready To Go Public?" in the January 1995 issue.)

To take your company public, you must convince an underwriter or investment banker that your business is a good candidate for the stock market. You must show that you have a strong management team, a solid track record on earnings, and audited financial reports for several years.

Meanwhile, author Arkebauer suggests that because you are a manufacturer, you should also have a consultant audit your inventory-taking process to make sure your inventory records are in good order.

Arkebauer, president of an investment-banking concern in Denver, says he thinks the outlook for IPOs is generally favorable for the next year. His short-term outlook stems in part from the approach of the presidential election. The stock market historically has been more stable in the months leading up to an election, he says. "It's a good time to get your plans in place." NB

Laura M. Litvan is a business writer in Washington, D.C.

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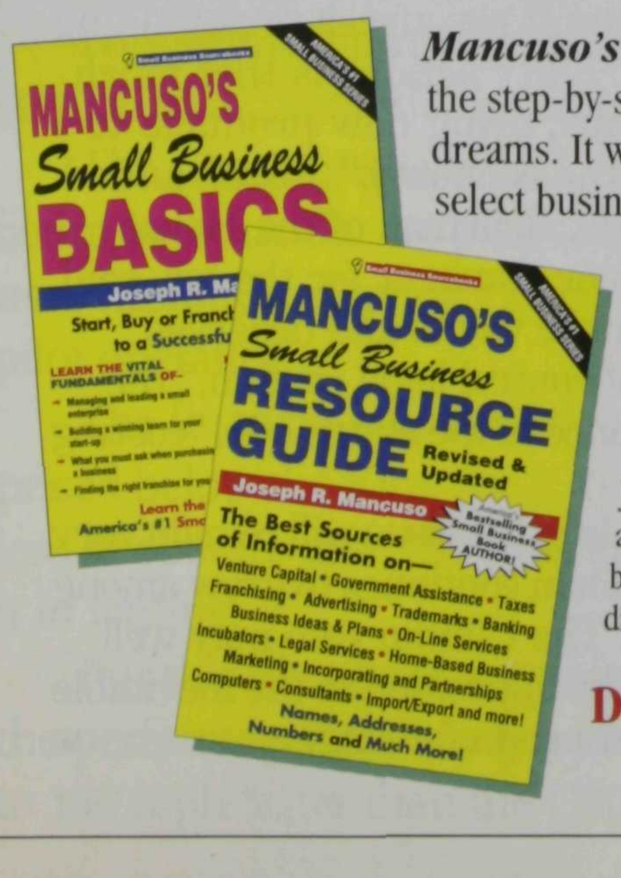
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Editorial

A Veto That Rebuffs Consumers

Special-interest pressure and "raw political considerations in the White House" prompted President Clinton's veto of legislation to bring long-needed reform to the nation's product-liability laws, says a key sponsor of the measure.

That comment was made by a respected member of the president's own party—Sen. Jay Rockefeller of West Virginia.

Clinton's veto was not only a repudiation of Rockefeller and other Democrats who had supported the legislation; it was also a cave-in to the trial lawyers' lobby, whose members have profited mightily from the existing laws at the expense of consumers generally.

That lobby, one of Clinton's most generous campaign contributors, was powerful enough to turn back the vast popular support for liability reform that was reflected in bipartisan congressional approval of the measure. It passed the Senate 59-40 and the House 259-158.

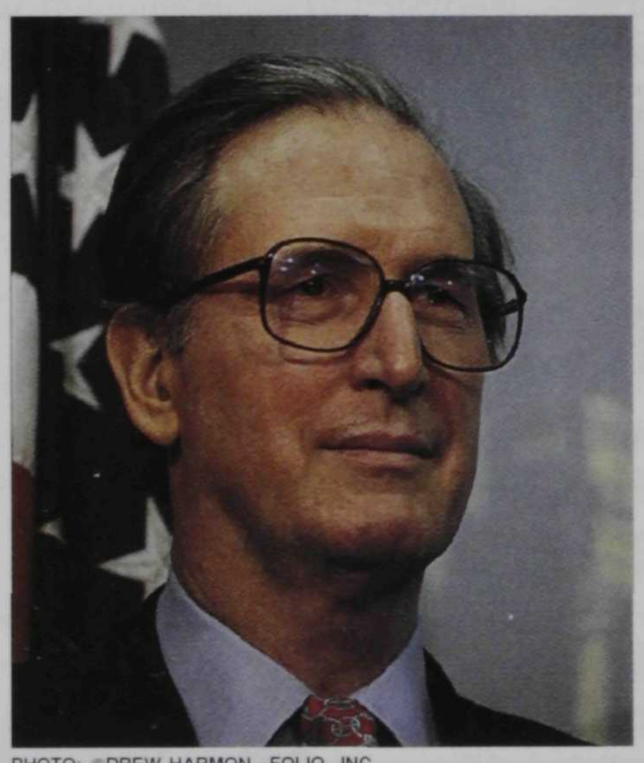


PHOTO: ©DREW HARMON—FOLIO, INC.

Sen. Jay Rockefeller: *"Raw political considerations" prompted veto.*

A strong majority of 258 House members voted to override the Clinton veto, while only 163 supported it. The former number, however, fell just 23 votes short of the two-thirds majority needed for an override.

In accommodating a powerful special interest, Clinton rebuffed the concerns of a far larger and more politically potent group, American consumers.

The bill's broad significance was detailed in its own "findings" section. Because of "excessive, unpredictable, and often arbitrary damage awards and unfair allocation of liability," the section stated, "consumers have been adversely affected through withdrawal of products, services, and service providers from the marketplace and [by] excessively high costs passed on to them." A major failing of the present system, the measure explained, is its tangled arrangement; each state has its own product-liability laws, "resulting in a complex, contradictory, and uncertain regime that is inequitable to both plaintiffs and defendants."



PHOTO: ©DENNIS BRACK—BLACK STAR

Rep. Henry J. Hyde: *"The American public wants reform."*

The bill submitted to the president offered common-sense solutions to the existing problems while preserving the rights of individuals to press legitimate claims.

The trial lawyers—and Clinton—claimed that the measure would have protected companies from having to answer for defective products.

The lawyers' concern for plaintiffs' rights is more understandable when placed in the context of who gets what in liability suits: The General Accounting Office points out that more than half the money collected by plaintiffs goes to attorneys. And it is punitive damages that provide them with multimillion-dollar bonanzas.

The business stake in this issue was described forcefully by R. Bruce Josten, senior vice president for membership policy of the U.S. Chamber of Commerce, which has been in the forefront of the 18-year battle for liability reform: "Many businesses, particularly small companies, live in daily fear that they are one lawsuit away from extinction."

Every firm forced to commit resources to defending itself against a frivolous liability action "is that much less able to grow, create jobs, bring new products to market, and contribute to the economy," Josten added.

Rep. Henry J. Hyde, R-Ill., chairman of the House Judiciary Committee and floor manager for the bill, said that while "the American public wants and deserves reform of our current out-of-control legal system," the Clinton veto means continuance of the status quo, "costing consumers dearly."

While one battle has been lost, the issue will remain very much alive as support for reform continues to grow among the public and in Congress. The Clinton veto may well prove to be the last gasp of the opposition to the inevitable change in a system badly in need of change. NB



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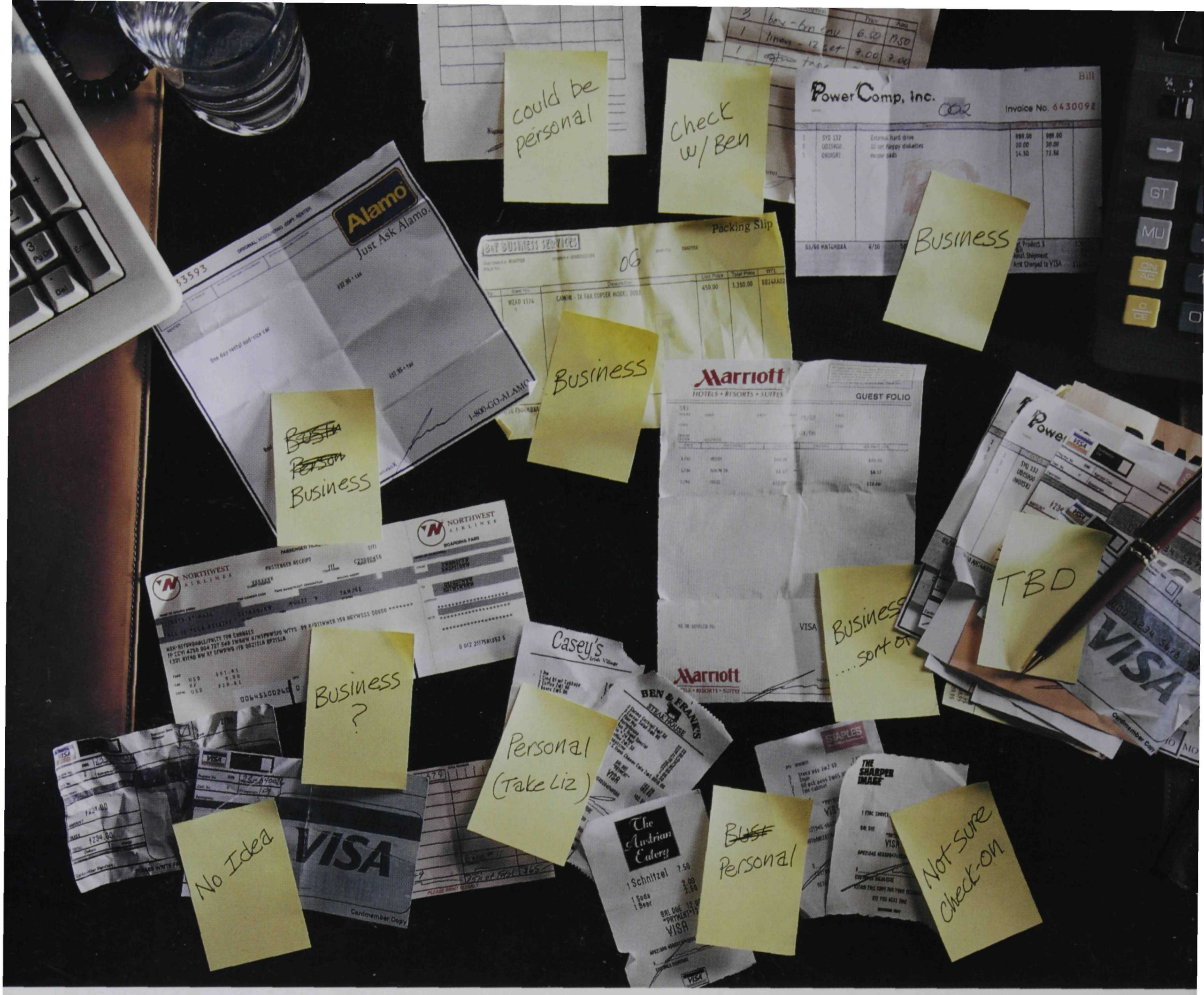
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The Business Advocate

SUPPLEMENT TO Nation's Business JULY 1996

Published By
U.S. Chamber of Commerce

Urgent...

Your Support Is Vital In Defeating Unions' Campaign Against Business

...See Page 4

Respond To The Accompanying Survey To Help The Chamber Set The Business Agenda

■ Regulations

Business Views Sought

Rep. David McIntosh, R-Ind., and other lawmakers are enlisting the help of the U.S. Chamber of Commerce, other business groups, and individual companies in identifying rules that can be improved under a new law giving Congress the final authority over all federal regulations.

The Chamber had strongly supported passage of the law, which was written by McIntosh. It was enacted March 29 as part of legislation that raised the federal debt limit. The debt-limit measure allowed the government to borrow money to pay its liabilities.

In a May 21 address at the Chamber's headquarters, in Washington, D.C., McIntosh said the new regulatory law gives business a greater voice in the rule-making process. Known as the Congressional Review Act, it requires federal agencies to submit to Congress for review all regulations "of general applicability and future effect."

Among the rules included in that broad definition are formal and informal regulations, interpretive rules, agency policy statements, enforcement manuals, instructions to agency staff, and guidance documents.

In addition to submitting rules to the House and the Senate, agencies must send them to the comptroller general, who heads the General Accounting Office.

Agencies also are required to submit to the GAO a cost-benefit analysis for each rule and information regarding the rule's compliance with presidential executive orders and laws dealing with regulations.

If an agency fails to comply with any of the applicable statutes or if it fails to submit a rule to Congress or the GAO, the rule cannot go into effect.



Rep. David McIntosh, R-Ind., is the author of a new law that allows Congress to review and disapprove all federal-agency regulations.

Regulations also cannot go into effect until 60 days after they are submitted to Congress and are published in the *Federal Register*.

Congress, however, has 60 days while it is in session to review a rule and to pass by a two-thirds majority a resolution disapproving the rule. The president could veto the resolution, and Congress could override the veto with a two-thirds vote.

McIntosh, who cited the Chamber for its regulatory-relief efforts, called the Congressional Review Act "the most significant change in regulatory law in 50 years."

■ Legislation

Chamber Stands Firm Against Wage Hike

The U.S. Chamber of Commerce is urging the Senate to reject an increase in the federal minimum wage.

At press time, the Senate was preparing to vote on a bill approved by the House in mid-May that would raise the wage floor in two stages from its current $4.25 an hour. It would be raised to $4.75 this July 1 and to $5.15 on July 1, 1997.

The minimum-wage bill, which was approved by the House on a 281-144 vote May 23, was later attached to legislation related to employer-provided vehicles.

The vehicles measure would make it clear that employers are not required to pay their workers for time spent commuting between home and a job site in an employer-provided vehicle.



Martin A. Regalia, right, the U.S. Chamber's chief economist, confers with Doug Loon, the Chamber's director of congressional affairs, before testifying to the House Small Business Committee on the adverse effects of a minimum-wage hike.

The Chamber supports the travel-time clarification measure.

After the travel-time and minimum-wage bills were approved, they were coupled by the House parliamentarian—as required by the rule governing debate on the measures—with a small-business tax package. The legislation was then sent to the Senate.

The tax measure, which was approved May 22 by a vote of 414-10, would, among other provisions, simplify for small firms the rules for setting up and maintaining employee retirement plans, increase the annual expense allowance for business equipment, and reform existing rules to allow more small firms to organize as S corporations.

The Chamber supports the tax package. The organization is urging senators to support the tax and travel-time measures and to strip the minimum-wage increase from the legislation.

If, when you receive this issue, the Senate has not considered the proposal to increase the minimum wage, call your senators and urge them to vote against raising the wage floor.

Ask them to consider the wage, travel-time, and tax measures on their individual merits rather than as a package. Senators may be reached through the Capitol switchboard at (202) 224-3121.

■ Punitive Damages

High Court Sides With Chamber

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, won a huge victory for business in its fight against excessive punitive damages with a May 20 decision by the U.S. Supreme Court.

The high court agreed with the NCLC that a $2 million award for punitive damages to a car buyer who was not told that his new vehicle had been retouched for paint damage was "grossly excessive and therefore exceeds the constitutional limit." The NCLC made its case in a friend-of-the-court brief.

The decision marked the first time the Supreme Court had struck down a punitive-damages award as "excessive."

"This decision will go a long way toward eliminating outrageously high punitive-damages awards," said Stephen A. Bokat, the NCLC's executive vice president. The 5-4 ruling by the justices is particularly important in light of President Clinton's recent veto of legislation that would have limited punitive damages in product-liability lawsuits.

The decision came in the case of *BMW of North America Inc. vs. Ira Gore Jr.* Gore had sued BMW in an Alabama state court after learning that parts of his new $40,000 car had been repainted to correct damage to its finish incurred during shipping from Germany. BMW had not disclosed the repairs.

An Alabama jury awarded Gore $4,000 in compensatory damages and $4 million in punitive damages. The punitive-damages award was calculated by multiplying the $4,000 in compensatory damages by the 1,000 cars partially repainted and sold by BMW nationwide over 10 years.

"This decision will go a long way toward eliminating outrageously high punitive-damages awards."

—Stephen A. Bokat
Executive Vice President
National Chamber Litigation Center



PHOTO: T. MICHAEL KEZA

The Alabama Supreme Court ruled that the jury erred in penalizing BMW for the transactions that occurred outside that state. However, although only 14 repainted cars were sold in Alabama, the court reduced the punitive-damages award by only half, to $2 million.

The NCLC argued in its brief that the $2 million award was "grossly excessive" and thus violated the due-process clause of the 14th Amendment to the Constitution. The Supreme Court agreed.

It also concurred with the legal center in ruling that "BMW's conduct was not sufficiently egregious to justify the severe punitive sanction imposed against it."

The case was sent back to the Alabama Supreme Court for either a new trial or a new award amount in keeping with the harm inflicted on Alabama consumers.

The NCLC argued that if Gore had been entitled to $4,000 in compensatory damages, the punitive damages should have been no more than $56,000, an amount calculated by multiplying $4,000 by 14—the number of repainted cars sold in the state.

The victory for business was the NCLC's second in the Supreme Court this year.

■ Independent Contractors

Rule Clarification Urged

Action is being urged by the U.S. Chamber of Commerce on legislation to clarify rules governing independent contractors.

The organization is backing similar bills in the Senate and the House that would make it easier for a business to determine whether a worker can be classified as an independent contractor.

The Senate legislation is sponsored by Sens. Christopher S. Bond, R-Mo., and Don Nickles, R-Okla., and the House bill by Rep. Jon Christensen, R-Neb.

Under existing rules, the Internal Revenue Service uses a 20-point test to determine whether the independent-contractor status is accurate for a worker. If a worker is misclassified as an independent contractor rather than as an employee, a business could be subject to back taxes, penalties, and interest.



PHOTOS: T. MICHAEL KEZA

The pending legislation would consider a worker an independent contractor if he or she met the following criteria:

1. The worker exhibits one of the following traits:
 - Makes significant investments in assets and/or training.
 - Incurs significant unreimbursed expenses.
 - Agrees to perform a service for a particular amount of time to achieve a designated result and accepts liability for damages for noncompliance.
 - Is paid primarily on commission.
 - Purchases products for resale.
2. The worker either has a principal place of business other than at the company for which he or she provides services or intends to offer services to other companies.
3. The worker has a written contract with a firm saying that the services are being provided and that he or she will not be treated as an employee of the company.

THE COALITION

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Dear Businessperson:

You undoubtedly get many appeals for funds that are labeled "URGENT," but this one is the real thing.

As you know, militant supporters of large, intrusive government—led by the AFL-CIO and including the trial lawyers and some environmental and consumer groups—are focusing their formidable resources on a well-financed campaign to defeat the first Congress in decades that has tried to responsibly reduce the size, cost, and impact of government. If this effort succeeds, here are a few things it will mean to you:

- NO reform of the heavy burden of government overregulation on your business.
- NO relief from a crushing round of new labor laws, including mandatory health insurance and changes intended to facilitate union organizing activities.
- NO reform of an out-of-control legal system that primarily benefits trial lawyers.
- NO relief from a tax system that virtually no one understands—and that punishes work, savings, and investment.

That, along with a return to runaway deficit spending, higher interest rates, and lower economic growth, is just a sampling of what you can expect if the effort to return control of Congress to the fans of Big Government succeeds.

That's why this appeal is URGENT.

That's why the organizations listed at the left have joined in this unprecedented effort to raise funds for an educational campaign to tell the truth about what this Congress has tried to achieve to provide a more prosperous future for workers and their employers.

This effort will not involve explicit support for or opposition to any political party or candidate and therefore is not restricted by federal election-contribution rules. It will be purely educational to correct the distorted messages being spread by union leaders and their allies. Accordingly, it will be strictly limited to issue advocacy with a major emphasis on advertising.

How much should you give to this critically important cause? As much as you possibly can, but here's a suggestion: The AFL-CIO's $35 million special assessment amounts to about $1.80 per union member. Let's all give at least $1.80 per employee and match organized labor. Our contributions, however, will be voluntary.

Because of the exceptionally broad-based nature of this effort, you will get more than one copy of this appeal if you belong to more than one of the sponsoring organizations. We expect you to give only once, but we do ask you to give. It is URGENT!

Please make your check payable to The Coalition, c/o Roy Fletcher, 1615 H Street, N.W., Washington, D.C. 20062-2000. Contributions are not tax-deductible.

The Coalition

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See the related advertisement on the facing page and the related story on Page 14A.

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■ Fiscal Policy

Balanced-Budget Drive Continues

The U.S. Chamber of Commerce is urging members of Congress to approve legislation that would balance the federal budget by 2002.

The business federation praised the recent passage by the House and the Senate of similar budget resolutions for fiscal years 1997-2002.

The resolutions serve as blueprints for congressional appropriations panels as they craft spending legislation for programs under their jurisdiction.

The legislation will be in the form of 13 appropriations bills and must be approved by both houses of Congress and the president.

A budget reconciliation bill, which will include changes in tax laws and spending levels set by previous budget laws and the 1997 appropriations measures, also must be enacted.

A House-Senate conference committee meeting in early June was expected to work out minor differences in the House and Senate budget resolutions.

The House approved its resolution May 16 on a 226-195 vote. It calls for $714 billion in savings from reductions in spending over six years. Taxes would be cut by $122 billion for a net reduction in the deficit of $592 billion over the same period.

Rep. John R. Kasich, R-Ohio, chairman of the House Budget Committee, has indicated that the tax cuts may be as high as $180 billion.

Also on May 16, the House rejected by a 117-304 vote the Clinton administration's budget proposal. It called for $576 billion in savings from reductions in spending and a $39 billion tax cut.

The Senate resolution, which was adopted 53-46 on May 23, would result in savings of $698 billion from current spending projections from 1997 through 2002 and would cut taxes by $122 billion for a deficit reduction of $576 billion over the six years. Fiscal 1997 begins Oct. 1.

Both resolutions call for savings in the rate of growth of Medicare—the health-care program for the elderly and the long-term disabled—of about $168 billion over six years. Medicare spending per recipient, however, would increase each year during the period.

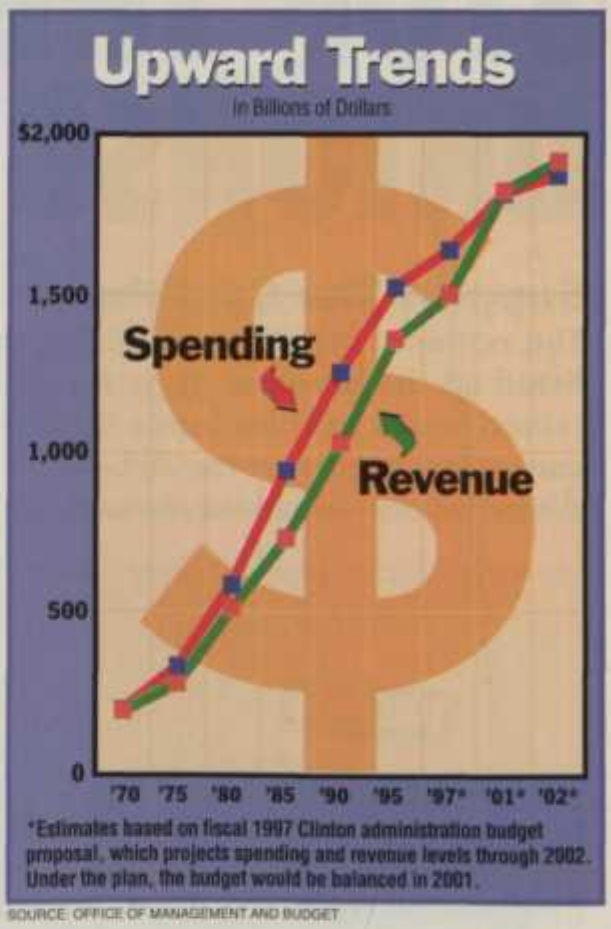
A recent report by the Medicare system's trustees concluded that the program will go broke by 2002 unless spending is reduced or revenues—in the form of payroll taxes—are raised.

The budget proposals also call for repeal of the Davis-Bacon prevailing-wage law. That federal statute requires contractors working on projects that receive $2,000 or more in federal funding to pay their employees the prevailing wage in an area, which usually is the union wage.

Efforts last year to adopt a budget agreement for 1996-2002 failed because of White House opposition to the bill approved by Congress. President Clinton vetoed legislation late last year that called for $890 billion in savings through spending reductions and $218 billion in tax cuts.

Lawmakers and the president finally agreed in April on a measure covering only fiscal 1996, which began Oct. 1, 1995. It cut spending by just $23 billion, contained no tax cuts, and did not address spending on entitlement programs such as Medicare or welfare.

Call your lawmakers and urge them to approve a budget reconciliation bill that would balance the federal budget by 2002 through reductions in spending growth. Members of Congress can be reached by calling the Capitol switchboard at (202) 224-3121.



■ Initial Response

Retirement Plan Draws Attention

Initial response by small firms to the May announcement of a retirement-plan offer by Fidelity Investments and the U.S. Chamber of Commerce has been "tremendous," says Lawrence Kraus, senior vice president/administration for the Chamber.

The Chamber and Fidelity will make available to Chamber members an affordable and easy-to-implement package of retirement plans and services.

The products, designed primarily for businesses employing fewer than 100 workers, will include 401(k), Keogh, SARSEP, SEP-IRA, and other plans. Fidelity will provide investment management, record-keeping services, and employee-communications materials for the retirement plans.

Additional details about the retirement-plan offer will be announced in the coming weeks and published in a future issue of *The Business Advocate*.

For more information on the plan, call the Chamber's Mary Stranova at (202) 463-5335.

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

Your Survey Response Will Help Chamber Set Priorities

The U.S. Chamber of Commerce is surveying its membership to help the organization set its legislative priorities for the next Congress. The survey was enclosed in the polybag with this issue of *The Business Advocate* and the July *Nation's Business*.

The next Congress—the 105th—is likely to convene in late January and to be faced with a variety of issues that concern business. Following are brief background summaries of the issue areas that are covered in the survey and that are expected to see action.

Regulatory Reform

The House passed a bill last year that would require the federal government to compensate property owners if their land lost 20 percent or more of its value as a result of the issuance or enforcement of federal regulations, such as the Endangered Species Act. A companion Senate bill, which would allow for compensation if a landowner's property lost 33 percent or more of its value, is pending.

The House also approved a regulatory-reform bill that would have required rule-making agencies to consider the economic impact of regulations and to assess the relative risks of problems addressed by proposed health, safety, and environmental regulations. The Senate failed to pass a similar measure.

Legislation renewing the Paperwork Reduction Act, which expired in 1989, was passed and signed into law. The act calls for annual cuts in the amount of paperwork the federal government can require of businesses and individuals.

Included in a bill that was enacted to raise the U.S. debt limit was a provision to strengthen the Regulatory Flexibility Act, which requires agencies to examine a proposed rule's effect on small business and to allow compliance flexibility if the regulation would have a significant adverse impact. The act was strengthened by allowing small firms to sue in federal court to ensure enforcement of the act.

Also included in the debt-limit legislation was a provision giving Congress 60 days to review agencies' proposed rules. It gives Congress the authority to study and, if it wishes, to reject agency rules before they go into effect.

Legal Reform

Legislation to reform the legal system passed the House in early 1995 but became bogged down in the Senate. The House-approved bill would have limited product-liability and medical-malpractice lawsuits and encouraged out-of-court settlements and alternative dispute resolution for all civil litigation. The Senate passed a measure to limit only product-liability damages. President Clinton vetoed the compromise bill that was ultimately agreed to by both houses; it covered product liability only.

Welfare Reform

The House and Senate also reached a compromise agreement on legislation to overhaul the welfare system, but Clinton vetoed the measure. The main provisions called for welfare recipients to find work within two years of first receiving benefits and for giving states more control over how welfare funds are spent.

Pension Reform

Legislation to simplify rules for establishing and maintaining employer-sponsored retirement plans is pending in the Senate and is part of a tax package recently approved by the House.

To start a 401(k) plan under current pension regulations, for example, an employer must conduct complex nondiscrimination tests to determine which employees are "highly compensated" and whether the pension plan discriminates in favor of those workers. The pending measures would simplify such tests.

Labor-Law Reform

Lawmakers in the current Congress have sought to update a host of federal labor laws, most of which were adopted in the 1930s. But opposition from organized labor and the Clinton administration so far has prevented floor action on most labor-law-reform measures.

Legislation was introduced to amend the 1938 Fair Labor Standards Act to allow employers to grant hourly workers time off rather than immediate pay for overtime work. Employees, who could choose either to be paid time and a half or to receive compensatory leave, would accrue the comp time at the rate of 1.5 hours for each hour over 40 worked.

Business also is backing a change in the 1935 National Labor Relations Act that has been interpreted as making it illegal for employers in nonunion companies to establish self-directed employee teams or committees for discussions on such issues as scheduling, work assignments, and health and safety matters.

Last year, the House approved a bill, known as the Teamwork for Employees and Management (TEAM) Act, that would allow worker teams. An identical measure is pending in the Senate.

Republican lawmakers also have sought to amend the Davis-Bacon Act, which requires contractors on federally funded projects of $2,000 or more to pay their workers the area's prevailing wage—usually the union wage. The Republicans' House and Senate budget plans for fiscal 1997, which are still being considered, would repeal the Davis-Bacon Act.

Bills pending in the Congress to modernize the 1970 Occupational Safety and Health Act would require the Occupational Safety and Health Administration to act more as a facilitator to companies trying to comply with workplace safety and health rules.

Small-Business Tax Reform

As part of the 1993 budget bill, Congress passed and Clinton signed an increase in the maximum individual income-tax rate to 39.6 percent. It had been 31 percent.

As a result, earnings retained or reinvested by S corporations, partnerships, and sole proprietorships are subject to that rate, while

Continued on Page 10A

Chamber Adds Endorsements

The U.S. Chamber of Commerce has made its first endorsements for congressional candidates challenging incumbents or vying for open seats in the Nov. 5 elections.

The Chamber's board of directors voted May 6 to back three candidates running as challengers in House races and 10 candidates running for open House seats. Earlier the Chamber endorsed the 224 lawmakers listed here—13 U.S. senators and 211 U.S. representatives—as "friends of business" for re-election in November.

The "friends of business" endorsement is earned by lawmakers who have voted at least 70 percent of the time for the Chamber's position on issues important to business during the legislators' tenures in Congress. The challengers to incumbent lawmakers and those backed in open-seat races won the Chamber's support based on the backing they have in their local business communities and the likelihood that they will cast pro-business votes if elected.

Following is the list of members of Congress endorsed for re-election in 1996 as "friends of business" and the newly endorsed challengers and candidates for open seats. The "friends" endorsements were published previously in the April issue of *The Business Advocate*.

To the right of the name of each lawmaker endorsed as a "friend of business" is the percentage of votes the lawmaker has cast in line with the Chamber position on selected issues during his or her congressional tenure. The newly endorsed candidates are listed under separate headings on Page 9A. To the left of each person's name is the number of the candidate's congressional district.

The Chamber expects to endorse other candidates for the House and the Senate as the year progresses. For more information on the Chamber's political-action program, call Doug Loon, director of congressional affairs, at (202) 463-5600.

HOUSE

ALABAMA
1	Sonny Callahan (R)	90%
2	Terry Everett (R)	89%
6	Spencer Bachus (R)	94%

ARIZONA
1	Matt Salmon (R)	90%
3	Bob Stump (R)	89%
4	John Shadegg (R)	100%
5	Jim Kolbe (R)	95%
6	J.D. Hayworth (R)	100%

ARKANSAS
3	Tim Hutchinson (R)	90%
4	Jay Dickey (R)	89%

CALIFORNIA
1	Frank Riggs (R)	93%
2	Wally Herger (R)	91%
4	John Doolittle (R)	86%
10	Bill Baker (R)	93%
11	Richard Pombo (R)	93%
19	George P. Radanovich (R)	100%
21	William M. Thomas (R)	93%
22	Andrea Seastrand (R)	92%
23	Elton Gallegly (R)	91%
25	Howard McKeon (R)	100%
28	David Dreier (R)	92%
38	Steve Horn (R)	90%
39	Edward Royce (R)	90%
40	Jerry Lewis (R)	82%
41	Jay Kim (R)	100%
43	Ken Calvert (R)	100%
44	Sonny Bono (R)	100%
45	Dana Rohrabacher (R)	87%
46	Robert K. Dornan (R)	86%
47	C. Christopher Cox (R)	87%
48	Ron Packard (R)	92%
49	Brian Bilbray (R)	96%
51	Randy Cunningham (R)	92%
52	Duncan Hunter (R)	85%

COLORADO
3	Scott McInnis (R)	90%
5	Joel Hefley (R)	90%
6	Dan Schaefer (R)	85%

CONNECTICUT
5	Gary Franks (R)	91%
6	Nancy L. Johnson (R)	70%

DELAWARE
	Michael Castle (R)	95%

FLORIDA
1	Joe Scarborough (R)	88%
4	Tillie Fowler (R)	91%
6	Cliff Stearns (R)	80%
7	John Mica (R)	89%
8	Bill McCollum (R)	89%
9	Michael Bilirakis (R)	82%
10	C.W. "Bill" Young (R)	80%
12	Charles Canady (R)	91%
13	Dan Miller (R)	96%
14	Porter J. Goss (R)	88%
15	David Weldon (R)	100%
16	Mark Foley (R)	96%
18	Ileana Ros-Lehtinen (R)	72%
21	Lincoln Diaz-Balart (R)	78%
22	E. Clay Shaw Jr. (R)	86%

GEORGIA
1	Jack Kingston (R)	91%
3	Michael "Mac" Collins (R)	85%
4	John Linder (R)	97%
6	Newt Gingrich (R)	89%
7	Bob Barr (R)	96%
8	Saxby Chambliss (R)	100%
9	Nathan Deal (R)*	87%
10	Charles Norwood (R)	100%

IDAHO
1	Helen Chenoweth (R)	92%
2	Michael Crapo (R)	91%

ILLINOIS
5	Michael Flanagan (R)	92%
6	Henry J. Hyde (R)	86%
8	Philip M. Crane (R)	88%
10	John Edward Porter (R)	85%
11	Jerry Weller (R)	100%
13	Harris W. Fawell (R)	93%
14	J. Dennis Hastert (R)	90%
15	Thomas Ewing (R)	93%
16	Donald Manzullo (R)	94%
18	Ray LaHood (R)	88%

INDIANA
2	David McIntosh (R)	100%
4	Mark Edward Souder (R)	92%
5	Steve Buyer (R)	100%
6	Dan Burton (R)	87%
8	John N. Hostettler (R)	83%

IOWA
1	Jim Leach (R)	71%
2	Jim Nussle (R)	94%
4	Greg Ganske (R)	100%
5	Tom Latham (R)	96%

KANSAS
2	Sam Brownback (R)	100%
4	Todd Tiahrt (R)	100%

KENTUCKY
1	Edward Whitfield (R)	100%
2	Ron Lewis (R)	88%
4	Jim Bunning (R)	90%
5	Harold Rogers (R)	81%

LOUISIANA
1	Bob Livingston (R)	87%
3	W.J. "Billy" Tauzin (R)*	75%
5	Jim McCrery (R)	94%
6	Richard H. Baker (R)	94%

MAINE
1	Jim Longley (R)	96%

MARYLAND
1	Wayne Gilchrest (R)	91%
2	Robert Ehrlich Jr. (R)	88%
6	Roscoe Bartlett (R)	94%

MASSACHUSETTS
3	Peter Blute (R)	83%
6	Peter Torkildsen (R)	87%

MICHIGAN
2	Peter Hoekstra (R)	96%
3	Vernon Ehlers (R)	94%
4	Dave Camp (R)	94%
6	Frederick S. Upton (R)	94%
7	Nick Smith (R)	93%
8	Dick Chrysler (R)	100%
11	Joseph Knollenberg (R)	94%

MINNESOTA
1	Gil Gutknecht (R)	100%
3	Jim Ramstad (R)	86%

MISSISSIPPI
1 Roger Wicker (R) 96%
4 Mike Parker (R)* 84%

MISSOURI
2 James Talent (R) 94%
8 Bill Emerson (R) 87%

NEBRASKA
1 Doug Bereuter (R) 86%
2 Jon Christensen (R) 96%
3 Bill Barrett (R) 92%

NEVADA
1 John Ensign (R) 100%

NEW HAMPSHIRE
2 Charles Bass (R) 96%

NEW JERSEY
2 Frank A. LoBiondo (R) 79%
3 Jim Saxton (R) 80%
5 Marge Roukema (R) 74%
7 Bob Franks (R) 88%
8 Bill Martini (R) 79%
11 Rodney Frelinghuysen (R) 88%

NEW MEXICO
1 Steven Schiff (R) 84%
2 Joe Skeen (R) 84%

NEW YORK
1 Michael Forbes (R) 79%
2 Rick Lazio (R) 86%

ENDORSED

3 Peter King (R) 82%
4 Daniel Frisa (R) 90%
13 Susan V. Molinari (R) 83%
19 Sue W. Kelly (R) 92%
22 Gerald B.H. Solomon (R) 80%
24 John McHugh (R) 83%
25 James T. Walsh (R) 70%
27 Bill Paxon (R) 91%
30 Jack Quinn (R) 82%
31 Amo Houghton Jr.(R) 80%

NORTH CAROLINA
2 David Funderburk (R) 96%
3 Walter Jones Jr. (R) 90%
4 Fred Heineman (R) 96%
5 Richard M. Burr (R) 96%
6 Howard Coble (R) 90%
9 Sue Myrick (R) 100%
10 Cass Ballenger (R) 92%
11 Charles H. Taylor (R) 86%

OHIO
1 Steve Chabot (R) 96%
2 Rob Portman (R) 97%
4 Michael G. Oxley (R) 92%
5 Paul E. Gillmor (R) 85%
6 Frank A. Cremeans (R) 100%
7 David Hobson (R) 87%
8 John A. Boehner (R) 92%
10 Martin Hoke (R) 94%
12 John R. Kasich (R) 90%
15 Deborah Pryce (R) 94%
16 Ralph Regula (R) 75%
18 Bob Ney (R) 88%
19 Steven C. LaTourette (R) 96%

OKLAHOMA
1 Steve Largent (R) 100%
2 Tom Coburn (R) 96%
4 J.C. Watts (R) 100%
5 Ernest Jim Istook (R) 93%
6 Frank D. Lucas (R) 95%

OREGON
2 Wes Cooley (R) 96%
5 Jim Bunn (R) 90%

PENNSYLVANIA
7 Curt Weldon (R) 75%
8 Jim Greenwood (R) 90%
9 Bud Shuster (R) 80%
13 Jon D. Fox (R) 83%
17 George W. Gekas (R) 88%
19 William F. Goodling (R) 78%
21 Philip S. English (R) 92%

SOUTH CAROLINA
1 Mark Sanford Jr. (R) 92%
2 Floyd Spence (R) 84%
3 Lindsey Graham (R) 96%
4 Bob Inglis (R) 81%

TENNESSEE
2 John J. Duncan Jr. (R) 80%
3 Zach Wamp (R) 96%
4 Van Hilleary (R) 100%
7 Ed Bryant (R) 100%

TEXAS
3 Sam Johnson (R) 94%
4 Ralph M. Hall (D) 73%
6 Joe Barton (R) 91%
7 Bill Archer (R) 91%
9 Steve Stockman (R) 91%
13 William "Mac" Thornberry (R) 100%
17 Charles W. Stenholm (D) 79%
19 Larry Combest (R) 91%
21 Lamar S. Smith (R) 91%
22 Tom DeLay (R) 92%
23 Henry Bonilla (R) 100%
26 Richard K. Armey (R) 95%

UTAH
1 James V. Hansen (R) 92%

VIRGINIA
1 Herbert H. Bateman (R) 85%
6 Bob Goodlatte (R) 93%
7 Thomas J. Bliley Jr. (R) 93%
10 Frank R. Wolf (R) 80%
11 Thomas M. Davis III (R) 88%

WASHINGTON
1 Rick White (R) 100%
2 Jack Metcalf (R) 92%
3 Linda Smith (R) 100%
4 Richard "Doc" Hastings (R) 100%
5 George Nethercutt (R) 100%
8 Jennifer Dunn (R) 97%
9 Randy Tate (R) 100%

WISCONSIN
1 Mark Neumann (R) 100%
2 Scott Klug (R) 76%
6 Thomas E. Petri (R) 76%
9 F. James Sensenbrenner Jr. (R) 81%

WYOMING
Barbara Cubin (R) 100%

SENATE

ALASKA
Ted Stevens (R) 71%

IDAHO
Larry E. Craig (R) 92%

KENTUCKY
Mitch McConnell (R) 90%

MISSISSIPPI
Thad Cochran (R) 84%

NEW HAMPSHIRE
Robert C. Smith (R) 91%

NEW MEXICO
Pete V. Domenici (R) 78%

NORTH CAROLINA
Jesse Helms (R) 89%

OKLAHOMA
James Inhofe (R) 90%

SOUTH CAROLINA
Strom Thurmond (R) 88%

SOUTH DAKOTA
Larry Pressler (R) 72%

TENNESSEE
Fred Thompson (R) 89%

TEXAS
Phil Gramm (R) 88%

VIRGINIA
John W. Warner (R) 85%

CHALLENGERS

ILLINOIS
3 Jim Nalepa (R)
17 Mark Baker (R)

OHIO
14 Joyce George (R)

OPEN SEATS

CALIFORNIA
15 Tom Campbell (R) **
24 Rich Sybert (R)
27 James Rogan (R)

ILLINOIS
20 John Shimkus (R)

MISSISSIPPI
3 Charles Pickering (R)

TEXAS
1 Ed Merritt (R)
5 Pete Sessions (R)
8 Kevin Brady (R)
12 Kay Granger (R)
15 Ruben Hinojosa (D)

* Switched political parties during 1996.

** Campbell is currently filling the remainder of the term of former Rep. Norman Y. Mineta, who retired at the end of 1996.

Continued from Page 7A
regular C corporations generally are subject to a maximum rate of 34 percent. Legislation to rectify that inequity was introduced in the 103rd Congress but was not enacted.

Legislation to reduce federal estate and gift taxes was included in the balanced-budget bill vetoed by Clinton late last year.

The provision would have increased the amount of an individual's taxable estate that is exempt from estate and gift taxes to $750,000 from $600,000. It also would have exempted from the estate tax the first $1 million and 50 percent of the next $1.5 million of value of a qualified family-owned business.

Investment And Capital Formation

The alternative minimum tax (AMT) requires businesses and individuals at certain income levels to calculate their tax liabilities using deductions that are less favorable than those available under the regular tax method. Under the AMT, for example, equipment must be depreciated over a longer period than under the regular method. The House voted last year as part of its budget resolution to phase out the AMT for tax years beginning after 2000. The Senate's 1995 budget resolution and the subsequent House-Senate budget bill that Clinton vetoed would have simply modified the corporate AMT. The individual AMT would have been unchanged.

Lawmakers in the 104th Congress also have tried to reform the tax on capital gains. The vetoed balanced-budget bill would have provided a 50 percent capital-gains exclusion for individuals and a 28 percent maximum capital-gains tax rate for corporations.

Additionally, the vetoed budget bill would have increased the annual equipment-expensing amount to $25,000 from the current $17,500. The House recently passed a similar provision.

Comprehensive Tax Reform

Over the past two years, there has been much debate and a special-commission report on replacing the current federal income-tax system with an alternative tax. A national commission recommended replacing the income-tax system but did not suggest specifically what type of system should replace it. Among the alternatives being discussed in Congress are a flat—or single-rate—tax; a national retail-sales tax; and a value-added tax, whereby assessments are levied at various stages in the production process.

Federal Budget

Congress is still grappling with plans to balance the federal budget by 2002. Lawmakers and the president belatedly reached agreement on a fiscal 1996 budget after two partial government shutdowns. That budget cut $23 billion from fiscal 1996 discretionary spending but did not lay out spending plans for future years.

The House and Senate recently approved separate resolutions that call for balancing the budget between fiscal 1997 and fiscal 2002 with smaller tax cuts and less savings than those included in the vetoed budget bill for 1996–2002 offered in 1995.

Lawmakers also attempted to pass a resolution calling for an amendment to the Constitution to require that the federal budget be in balance. The House approved the balanced-budget amendment resolution, but the Senate fell one vote short.

Trade-Negotiating Strategies

The president currently has no authority delegated by Congress to negotiate trade agreements. Clinton rejected such authority, called fast-track authority, as proposed last year by the House Ways and Means Committee because it would not have allowed him to link environmental and labor standards with trade agreements.

Fast-track authority assures the president that Congress will simply approve or reject negotiated agreements but will not amend them. Without such authority the administration and other countries have no interest in negotiating an agreement only to have the U.S. Congress rewrite it.

Meanwhile, U.S. trading partners are busy concluding trade agreements in Latin America, the former Soviet Union, and Asia, while the United States sits on the sidelines.

Trade-Development Strategies

All industrialized countries assist their companies in gaining access to foreign markets. But among the seven largest and most-advanced countries, the U.S. ranks last in the amount of assistance it provides for domestic firms. Several legislative proposals seek to rectify this disparity. They include measures dealing with taxes that affect international trade and with streamlining and consolidating various government trade-assistance functions.

Health-Care Reform

After Clinton's comprehensive plan for health-care reform diminished support for any health-care changes last year, the 104th Congress has sought to make incremental reforms that would make insurance more affordable and more available to business, through which most Americans receive health-care insurance.

A conference committee is working to reconcile differences in health-care-reform bills passed recently by the House and Senate. The measures would allow workers to carry their health insurance from job to job and would limit the ability of insurers to deny coverage based on individuals' pre-existing health problems.

Both bills would increase the health-insurance tax deduction for the self-employed and unincorporated businesses from the current 30 percent. The House would increase it gradually to 50 percent in 2003, and the Senate would raise it in stages to 80 percent in 2006.

The House bill also would pre-empt state health-benefit laws for groups of small firms. That would allow them to purchase health insurance free of state mandates.

Social Security And Entitlement Reform

In addition to welfare programs, the current Congress has been working to protect and update other federal entitlements, including Medicare, Medicaid, and Social Security.

The Social Security funds are projected to go broke by 2030, according to the 1995 annual report of the program's board of trustees.

Medicare's hospital-insurance fund, which subsidizes hospital coverage for the elderly and the long-term disabled, will go broke by 2002 unless revenues are raised or spending is reduced, according to the trustees of the Medicare Hospital Insurance Trust Fund.

A GOP plan, which became part of the Republican budget bill vetoed by the president in late 1995, called for reducing the growth in Medicare spending from a projected rate of 10.4 percent annually over the next seven years to about 6.5 percent.

House and Senate Republican lawmakers, as part of their fiscal 1997 budget bills, are again considering reductions in the rate of spending growth for Medicare and Medicaid to keep the programs solvent. Medicaid savings would come mostly from turning over control of the program to the states.

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Taxes



Rep. Dan Schaefer, R-Colo., told the U.S. Chamber's Tax Policy Committee in May that he would like to see the federal income tax replaced with a national retail sales tax. Schaefer's replacement proposal, which has been the subject of hearings before the House Ways and Means Committee, calls for a 15 percent tax on products and services. The Chamber is studying various tax system alternatives.

Education

Center To Host Televised Program On School System

The Center for Workforce Preparation, the education and training affiliate of the U.S. Chamber, will host a national town-hall meeting Sept. 19 as part of a series on the American education system.

The program will be broadcast live from noon to 2 p.m. Eastern time by NewsTalk Television from the U.S. Chamber's Washington headquarters.

NewsTalk Television is a 24-hour, news-based, interactive talk cable channel owned by Multimedia Entertainment, a division of the Gannett Co., Inc.

The education series, titled "Education in America: Pass, Fail or Incomplete," will explore causes of and proposed solutions for the many problems facing the American education system. It will feature experts on the subject from the fields of education, government, and business, as well as community leaders, parents, and students.

Other programs in the series, which will be produced in conjunction with the Chamber's education center, will be broadcast Sept. 16, 17, 18, and 20 on the cable channel's "Prime Time Edition," from 9 to 10 p.m. Segments featuring students will be aired on the "Afternoon Edition: Teen Segment," which airs from 5:30 to 6 p.m. Eastern time.



Topics in the series will be the "State of Education in America: Preparing Our Nation's Children" (Sept. 16); "Educating the 21st Century Workforce: Competing With Other Countries" (Sept. 17); and "Technology In Education: Looking Toward The Future" (Sept. 18). The program on Sept. 20 will be a wrapup of the week's segments.

During the programs, viewers will be able to participate in the live discussions through phone calls, e-mail, faxes, or the NewsTalk Television World Wide Web site *(http://www.newstalk.com)*.

The Chamber's education center is encouraging the business federation's 220,000 members to ask their local cable system or satellite-program provider to carry the series.

For more information about the series, call Lee Tenebruso at NewsTalk Television at (212) 502-1552.

Victory

Striker Ruling Is Reaffirmed

The White House recently lost another round in its court battle with the U.S. Chamber of Commerce over President Clinton's executive order on striker replacements.

On May 10, the full U.S. Court of Appeals for the District of Columbia Circuit, in Washington, rejected the administration's request for a rehearing of an earlier decision that voided the executive order. The earlier decision, which resulted from a challenge by the U.S. Chamber, had been made by a three-judge panel of the court.

The executive order, issued March 8, 1995, prohibited federal agencies from awarding contracts larger than $100,000 to companies that had permanently replaced workers on strike for economic reasons, such as wages or benefits.



Conrad

In the 9-2 vote to reject the rehearing petition, the majority found the administration's arguments "far-fetched" and "silly."

"The court's decision speaks for itself," says Robin Conrad, vice president of the Chamber's public-policy law firm, the National Chamber Litigation Center, which initially challenged the executive order shortly after it was issued. That challenge was filed with the U.S. District Court for the District of Columbia. That court blocked enforcement of the order but rejected Chamber arguments that the order violated the National Labor Relations Act, which governs U.S. labor-management relations. The law lets employers replace workers who strike over such economic conditions.

The Chamber appealed that part of the ruling to the Court of Appeals. The three-judge panel ruled that the Clinton executive order "is regulatory in nature and is pre-empted by the National Labor Relations Act, which guarantees the right to hire permanent replacements."

In response to the May 10 decision by the full court, Conrad said, "This case is another blatant example of the Clinton administration carrying political water for the big-labor bosses in Washington."

■ Politics

Lesher Book Warns Small Firms

Political gains by small-business advocates in the 1994 congressional elections are in danger of being reversed unless business rallies to re-elect pro-business candidates this fall, warns U.S. Chamber of Commerce President Richard L. Lesher in a new book.

Small-business people—some of whom were themselves candidates in congressional races—were "the decisive force" in electing lawmakers who have a strong appreciation for business, Lesher notes in *Meltdown on Main Street: Why Small Business Is Leading the Revolution Against Big Government* (Dutton, $22.95).



U.S. Chamber President Richard L. Lesher, left, and Rep. Frank Cremeans, R-Ohio, discuss Lesher's new book, which mentions Cremeans' experience with government regulations when the lawmaker was running a small firm.

"The business world is changing dramatically, and the voice of small business is resounding with a new clarity, immediacy, and aura of power," writes Lesher, who has been the Chamber's president for more than 20 years.

Now, with many pro-business policies under heavy attack by some Democrats and their allies, Lesher says, it's time "to redouble our efforts to elect and re-elect pro-business candidates across the board until the small-business revolution is a done deal."

Lesher's book chronicles the increased political activity by small-business owners and managers, and it cites the role that the federal government, especially through regulations, played in activating small firms.

Many small-business leaders—frustrated with government policies that stifled growth—became involved politically for the first time in the 1994 elections and helped bring about the first Republican-controlled U.S. House of Representatives in 40 years.

For years, however, small-business people didn't complain much about costly federal regulations and mandates, Lesher writes, but President Clinton's plan to require employers to provide health insurance to all workers finally propelled small business to become a major player in the political process.

Lesher's book is in bookstores nationwide. It can also be ordered from the publisher by calling 1-800-253-6476.

■ Poll

How Voters React To Endorsements

Americans are more than twice as likely to vote for a candidate who has been endorsed by the U.S. Chamber of Commerce as they are for one backed by the AFL-CIO, according to a recent political poll.



A survey by Public Opinion Strategies, a national polling firm in Alexandria, Va., found that 46 percent of respondents said they would vote for a Chamber-supported candidate. Just 17 percent said they would vote for a candidate who had been endorsed by the AFL-CIO.

Twenty-one percent said they would not vote for a candidate endorsed by either organization. And 15 percent said they would consider voting for the candidate if he or she received the backing of either organization.

The independent, national survey of 800 randomly selected individuals was conducted by telephone May 2-4.

Among respondents who identified themselves as Republicans, the survey found strong support for Chamber-backed candidates. For example, 68 percent of the Republicans responding in the West said they would be more likely to vote for a candidate who had the Chamber's endorsement than for one endorsed by the AFL-CIO.

In contrast, just 33 percent of Democrats in the West said they would be more likely to vote for a candidate backed by the AFL-CIO than for one backed by the Chamber.

■ Elections

Remind Workers

The U.S. Chamber of Commerce is encouraging business people to register to vote and to cast their ballots on Nov. 5. Employers are also being asked to encourage their employees—through such means as reminders about Election Day—to vote.

The Chamber is providing its members with stuffers to put in employees' pay envelopes to remind them to register and to vote. The materials are being provided at cost, plus shipping and handling. Members should call 1-800-638-6582 between 9 a.m. and 4:30 p.m. Eastern time Monday through Friday for information and to request the materials. (In Maryland, call 1-800-352-1450.)

At the federal level, voters will determine who will be president and who will fill 34 Senate seats and all 435 House seats.

■ Negative Ads

AFL-CIO Targets Lawmakers



The U.S. Chamber of Commerce is urging its 220,000 members to show their support for pro-business members of Congress who have been targeted by the AFL-CIO in negative radio, television, and print advertising.

As of late May, organized labor had spent millions of dollars on advertising against 70 lawmakers in the legislators' congressional districts. (See the map.)

All 70 House members, many of whom were elected to Congress in 1994, had strong voting records in support of the Chamber's position on critical business issues during 1995.

"The AFL-CIO ads are misleading and outright untruthful," says Lonnie Taylor, the Chamber's vice president for congressional affairs. "These lawmakers have been unfairly targeted simply because they're pro-business and pro-economic growth."

The ads say that the legislators have voted to "slash" Medicare, the healthcare program for the elderly. In fact, 69 of the 70 lawmakers voted last year for a seven-year balanced-budget bill that would have increased annual Medicare spending. The bill would have raised annual spending per recipient from the current $4,800 to $6,700 by 2002—a 7.4 percent average annual increase—even as the number of Medicare recipients rose. President Clinton vetoed the bill.

Among the 70, the one lawmaker who voted against the budget bill, Rep. Steven C. LaTourette, R-Ohio, did so for reasons not related to changes in Medicare.

The fiscal 1997 budget proposal issued by Clinton this past March called for a 7.7 percent average annual growth rate in Medicare for fiscal years 1997 through 2002.

"Americans need the facts about lawmakers' votes, not twisted misinformation that leads to misguided conclusions," says the Chamber's Taylor.

Other issues on which the legislators are being attacked include their support for updating Depression-era labor laws, for making federal regulations less burdensome, and for working to protect small businesses.

The AFL-CIO is financing its campaign through a dues assessment on union members.

In a matter related to the ad campaign, a recent poll conducted by the Luntz Research Cos., based in Alexandria, Va., found that 62 percent of rank-and-file union members "strongly" or "somewhat" oppose the AFL-CIO campaign. The poll was conducted on behalf of Americans for a Balanced Budget, a grass-roots citizens group.

"The bottom line," says Taylor, "is Americans support the pro-growth, pro-job-creation efforts of this Congress, not the bloated, overly intrusive policies advanced by the big-labor bosses."

You can support the lawmakers targeted by the AFL-CIO by thanking them for their pro-business votes. The address is: U.S. House of Representatives, Washington, D.C. 20515. The phone number for the Capitol switchboard is (202) 224-3121. For more information, call the Chamber's Congressional Affairs Division at (202) 463-5600.

■ Free

Financial Resources Guide Available

A new guide to small-business financial resources is available free to U.S. Chamber of Commerce members from the organization's Small Business Center.

The book, *The Small Business Financial Resource Guide*, contains information on public- and private-sector sources of financing for businesses. They include federal, state, and local government agencies as well as banks, nonbank lenders, and other financial institutions. Also noted are businesses and associations that work directly with small firms in obtaining financing.

A directory of financial programs and assistance available in each state is also contained in the guide.

Additionally, the book includes information on business planning, types of loans, loan-documentation preparation, and financial statements. It also includes a checklist of documents needed in presenting a loan request to a lending institution.

For a free copy of the guide, contact the Chamber's Small Business Center at (202) 463-5503.





■ Product Liability

Vote After Veto Stalls '96 Effort

In a major disappointment for business, the House fell 23 votes short of the two-thirds majority needed to override President Clinton's May 2 veto of legislation to reform the nation's product-liability system.

The May 9 vote was 258-163.

If the override attempt had succeeded in the House, the effort would have moved to the Senate, where a vote to override would have required a two-thirds majority, or 67 votes.

The legislation, which was strongly backed by the U.S. Chamber of Commerce, would have replaced the patchwork of 50 state liability laws with a single federal law.

The Chamber has been pressing for a federal product-liability law for years and vowed to renew the fight next year in the 105th Congress.

The vetoed bill, among other reforms, would have:

■ Encouraged quicker settlements of lawsuits.

■ Limited the liability of retailers and wholesalers for the sale of defective products.

■ Restricted damage awards against defendants when a victim used a product in a way expressly warned against or that the average person should have known would cause harm.

■ Limited, for each defendant, the liability for noneconomic damages—pain and suffering—to the percentage of responsibility for harm to a victim attributed to each defendant.

U.S. Chamber MemberServices

The U.S. Chamber of Commerce offers numerous services and publications to its members. Here is a partial listing of these benefits.

Financial Planning

Two financial-planning seminars for business owners, which can be viewed free at sites nationwide, will be presented this summer by the Edward Jones investment firm, in St. Louis.

The first, on investment planning, is set for July 31, and the second, on estate planning, is scheduled for Aug. 14. Both programs will be transmitted by satellite to various locations and can be viewed from noon to 1:30 p.m. Central time.

Viewing locations will include selected Edward Jones offices nationwide and state and local chambers of commerce, businesses, and government and education institutions that are part of the satellite network of the U.S. Chamber's Quality Learning Services Division.

For more information about the seminars or for the location of the downlink site nearest you, call 1-800-835-4730.

Organization Executives

The Institutes for Organization Management, a continuing-education program for chamber and association executives, is once again conducting summer programs.

Each program consists of a week-long training session that helps association and chamber executives strengthen their leadership, management, interpersonal, and communications skills.

Sessions are scheduled for July 7-12 at the University of California, Los Angeles; Aug. 4-9 at the University of Delaware, in Newark; and Aug. 11-16 at the College of Charleston, in Charleston, S.C. A session is also set for Jan. 19-24 at the University of Oklahoma, in Norman.



For enrollment information, including a catalog on the program, which is celebrating its 75th anniversary and is sponsored by the U.S. Chamber, call (202) 463-5570.

A Guide To Congress



The *1996 Congressional Handbook* is available to U.S. Chamber members at a discount.

The handbook, produced each year by the Chamber, includes the photographs, telephone and room numbers, committee and subcommittee assignments, and key staff members for all senators and representatives in the second session of the 104th Congress. It also contains the locations and telephone numbers of their district offices.

Legislators are listed alphabetically, by state, and by committee.

A directory of addresses and telephone numbers for the White House, Cabinet-level agencies, and state governors also is included.

The handbooks cost $9.50 each for U.S. Chamber members and $11 for nonmembers for orders of one to nine copies. Discounts are available for orders of 10 to 99 copies and for 100 or more. To order, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Request publication No. 0460.

Management Seminars

A new series of management seminars by satellite will begin Sept. 17. The seminars are produced by the Quality Learning Services Division of the U.S. Chamber.

Here are the dates, seminar leaders, and subjects for the fall series:

Sept. 17—Don Tapscott, chairman of the Alliance of Converging Technologies; "Competing in the Digital Economy." The alliance is a research, education, and consulting company in Toronto.

Oct. 1—Dianna Booher, author and CEO of Booher Consultants, a communication-training firm in Dallas; "Think on Your Feet: Communicate With Confidence!"

Oct. 8—Deepak Chopra, author of the best-selling *The Seven Spiritual Laws of Success*; "The Seven Spiritual Laws of Success as Applied to Business: A Practical Approach."

Oct. 15—Marc J. Wallace Jr., author and founding partner of the Center for Workforce Effectiveness, a workplace consulting firm in Northbrook, Ill.; "The Virtual Workplace."

Oct. 29—Hyrum W. Smith, chairman and CEO of Franklin Quest Co., a time-management consulting company in Salt Lake City; "Time Management: It Has Nothing To Do With Watching the Clock."

Nov. 12—Knight A. Kiplinger, coeditor of *The Kiplinger Washington Letter* and publisher of *Kiplinger's Personal Finance* magazine; "Kiplinger Forecast: What's Ahead for Business, the Economy and Your Personal Finances."

Nov. 19—Paul and Sarah Edwards, authors; "Finding Your Perfect Work: The New Career Guide to Making a Living and Creating a Life."

Dec. 3—William J. Morin, former chairman and CEO of Drake Beam Morin, Inc., an outplacement/job-transition firm in New York City; "Career Alignment: Matching Personal and Organizational Goals."

All seminars in the fall series will air from 1 to 3 p.m. Eastern time. For information on the seminar site nearest you or to learn how to host a downlink site, call the Chamber's Federation Programs and Services Division at 1-800-835-4730 or (202) 463-5940.

U.S. Chamber members receive a 10 percent discount on the price of the seminars.

Programs And Services Guide

A free guide to the programs, services, and publications of the Chamber's Office of Membership Grassroots Management is now available.

Among other programs, the office manages the Chamber's Grassroots Action Information Network, the system used to alert members to pending legislative issues. The office also produces a number of publications, such as the annual congressional handbook, and provides other services to Chamber members.

To obtain a copy of the guide, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Ask for publication No. 0477.

Electronic Trade System

A personal-computer-based electronic system to help firms locate, qualify, and negotiate domestic and international trade and investment opportunities is available from the Chamber.

The International Business Exchange (IBEX) system automatically identifies foreign or domestic

IBEX
GLOBAL BUSINESS ALLIANCE

counteroffers to firms' buy, sell, or investment offers posted on the system. A user can negotiate terms of transactions, check credit information, and close deals from a personal computer equipped with a modem.

For more information about IBEX and a free trial of the system, call 1-800-537-4239, or, in Washington, D.C., (202) 463-5665.